

AR73

Whisper Business Reference Library
University of Alberta
116 Business Building
Edmonton, Alberta T6G 2R6



focusing **our** strength

GREAT-WEST LIFE 2000 ANNUAL REPORT



contents

Corporate profile.....	1
Financial highlights.....	2
Directors' report to policyholders & shareholders.....	4
Management's discussion and analysis.....	10
Management's responsibility.....	34
Consolidated financial statements.....	35
Appointed actuary's report.....	69
Auditors' report.....	69
Summary of participating policyholder dividend policy.....	70
Subsidiaries of The Great-West Life Assurance Company.....	70
Corporate governance.....	71
Board of directors.....	73
Executive officers.....	73
Glossary of insurance & financial terms.....	74
Policyholder and shareholder information.....	76

Forward-looking statements

This report may contain forward-looking statements about future operations, financial results, objectives and strategies of the Company. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions.

These statements are necessarily based on estimates and assumptions that are subject to risks and uncertainties, many of which are beyond the Company's control. Actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, global capital market activity, interest rates and general economic conditions in Canada, North America or internationally.

These and other such factors should be taken into consideration when reading the Company's forward-looking statements.

focusing **our** strength

Corporate profile

The Great-West Life Assurance Company is a leading insurer in Canada, offering a broad portfolio of financial security and benefit plan solutions for individuals, families, businesses and organizations. In addition to its domestic operations, the Company is a supplier of reinsurance and specialty general insurance, primarily in Canada and the United States.



Focused on Canada

Great-West and its subsidiary, London Life Insurance Company, serve the financial security needs of more than nine million Canadians through a network of Great-West and Freedom 55 FinancialTM security advisors, through brokers and marketing partnerships with other financial institutions.

Great-West was founded in 1891. Together with London Life, Great-West is a leader in its core domestic businesses – group insurance, life and disability insurance and segregated funds. London Life, founded in 1874, is known for its well-known Freedom 55TM brand. Great-West has \$52 billion in assets under administration.

Great-West and London Life are members of the Power Financial Corporation group of companies.

On December 31, 2000, Great-West conveyed ownership of its United States subsidiary, Great-West Life & Annuity Insurance Company, (GWL&A) to a newly-formed subsidiary of its parent Great-West Lifeco Inc. Great-West and GWL&A are now sister companies, focused on their respective markets – Great-West in Canada and GWL&A in the United States. This completed a process started many years ago of establishing separate and distinct operations in each country.

financial highlights

(in millions of dollars except per common share amounts)

CANADA**2000****1999****% change****For the year**

Premiums:

Life insurance, guaranteed annuities
and insured health products

\$ 3,748 \$ 3,690 2%

Reinsurance and property and casualty

2,878 2,075 39%

Self-funded premium equivalents (ASO contracts) ⁽¹⁾

1,102 1,039 6%

Segregated funds deposits: ⁽¹⁾

Individual products

1,817 1,344 35%

Group products

1,673 769 118%

Total premiums and deposits

\$ 11,218 \$ 8,917 26%

Fee and other income

346 278 24%

Paid or credited to policyholders

7,423 6,547 13%

Summary of net income attributable to:

Participating policyholders

Net income before policyholder dividends

559 578 -3%

Policyholder dividends

536 515 4%

Net income - participating policyholders

23 63 -63%

Shareholders

Preferred shareholder dividends

31 33 -6%

Net income - common shareholders

268 227 18%

299 260 15%

Net income

\$ 322 \$ 323 -%

At December 31

Total assets

\$ 33,037 \$ 32,285 2%

Segregated funds assets ⁽¹⁾

18,682 15,730 19%

Total assets under administration

\$ 51,719 \$ 48,015 8%

UNITED STATES**2000****1999****% change****For the year**

Premiums:

Life insurance, guaranteed annuities
and insured health products

\$ 3,350 \$ 2,761 21%

Self-funded premium equivalents (ASO contracts) ⁽¹⁾

7,695 4,425 74%

Segregated funds deposits: ⁽¹⁾

Individual products

959 618 55%

Group products

3,652 3,219 13%

Total premiums and deposits

\$ 15,656 \$ 11,023 42%

Fee and other income

1,295 944 37%

Paid or credited to policyholders

3,951 3,389 17%

Summary of net income attributable to:

Participating policyholders

Net income before policyholder dividends

185 169 9%

Policyholder dividends

181 149 21%

Net income - participating policyholders

4 20 -80%

Shareholders

Preferred shareholder dividends

6 6 -%

Net income - common shareholders

386 322 20%

392 328 20%

Net income

\$ 396 \$ 348 14%

At December 31

Total assets

\$ 271 * \$ 21,184 -

Segregated funds assets ⁽¹⁾

- * 17,998 -

Total assets under administration

\$ 271 * \$ 39,182 -

(in millions of dollars except per common share amounts)

TOTAL Great-West Life		2000	1999	% change
For the year	Premiums:			
	Life insurance, guaranteed annuities and insured health products	\$ 7,098	\$ 6,451	10%
	Reinsurance and property and casualty	2,878	2,075	39%
	Self-funded premium equivalents (ASO contracts) ⁽¹⁾	8,797	5,464	61%
	Segregated funds deposits: ⁽¹⁾			
	Individual products	2,776	1,962	41%
	Group products	5,325	3,988	34%
	Total premiums and deposits	\$ 26,874	\$ 19,940	35%
	Fee and other income	1,641	1,222	34%
	Paid or credited to policyholders	11,374	9,936	14%
	Summary of net income attributable to:			
	Participating policyholders			
	Net income before policyholder dividends	744	747	-%
	Policyholder dividends	717	664	8%
	Net income – participating policyholders	27	83	-67%
	Shareholders			
	Preferred shareholder dividends	37	39	-5%
	Net income – common shareholders	654	549	19%
		691	588	18%
	Net income	\$ 718	\$ 671	7%
	Return on common shareholders' equity	19.1%	17.4%	
<hr/>				
Per Common Share				
<hr/>				
Net earnings				
Dividends paid – regular				
– special				
Book value				
<hr/>				
December 31	Total assets	\$ 33,308 *	\$ 53,469	-38%
	Segregated funds assets ⁽¹⁾	18,682 *	33,728	-45%
	Total assets under administration	\$ 51,990 *	\$ 87,197	-40%
	Capital stock and surplus	\$ 3,448 *	\$ 5,347	-36%

* Reflects the corporate reorganization that saw GWL&A become a sister company to Great-West, (see note 2 of the Great-West financial statements).

⁽¹⁾ Segregated funds deposits and self-funded premium equivalents (ASO contracts). The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) group health contracts. However, the Company does earn fee and other income related to these contracts. Both segregated fund and ASO contracts are a growth aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

focused **on** performance



At Great-West, we have always focused our strengths on delivering effective financial security solutions that meet our clients' personal and business needs.

In 2000, we continued to use our leading market positions in Canada to offer outstanding value and service for clients and shareholders. How? By stimulating and strengthening the channels through which we deliver products and services to our clients; by developing the expertise of our people and the value they bring to our products and services; by aligning our strengths with those of other industry leaders to complement the areas where we excel; and by building on our ongoing commitment to the communities we serve.

funds increasing 35%. Self-funded premium equivalents (from ASO products) grew 6%. Premiums from guaranteed products increased 2%.

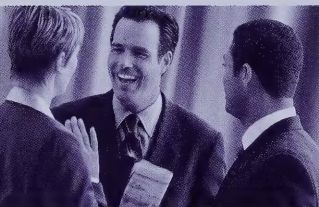
Group insurance net income increased dramatically in 2000, benefiting from improvements in claims experience as well as continued expense savings from the integration of London Life's group insurance business. Sales increased 20% overall, and 29% in our small and mid-size client target market, reflecting the Company's strong distribution networks and market leading products.

Segregated and mutual funds sales outpaced the industry average in 2000, reflecting the competitive strength of our products and financial security advice distribution channels. While many companies retrenched in the face of new capital requirements for segregated funds, Great-West's consistently prudent approach saw us well positioned to grow in this market.

Total assets under administration for Canadian Operations grew 8% to \$51.7 billion at year end, fueled by segregated funds assets, which increased 19% to \$18.7 billion.

Net income – Net income overall from Canadian Operations was \$322 million, essentially unchanged from 1999. For participating policyholders, net income declined 3% before

focused **on** choices



We are able to bring outstanding value and service to a broad range of financial solutions for organizations and people. Because of this, we are a leader in each of our core businesses.

Continuing growth

Strong sales – Great-West and London Life recorded strong growth in sales in 2000. Premiums and deposits, fee income and segregated funds assets all showed solid gains, fed by strong performance in our group insurance and wealth accumulation businesses.

Total premiums and deposits increased 26% for 2000. Fee-based products, particularly segregated funds products, generated the strongest growth in premiums, with deposits to individual segregated



Great-West is Canada's leading provider of benefit plans for large and small groups.

policyholder dividends, and 63% after policyholder dividends. For common shareholders, net income increased 18% over 1999.

A number of factors combined to contribute to this performance. We experienced strong investment performance and favourable morbidity experience during the year. However, these were offset by reduced earnings from our reinsurance business, which reflected the difficult market conditions in 2000, and by steps taken to reduce our exposure to the Asian markets.

Participating dividends – We maintained the dividend scale for participating policyholders in 2000. Net income in the participating account reflected favourable mortality and expense performance, with somewhat lower investment returns. Total policyholder dividends increased 4%, to \$536 million, continuing our history of long-term policyholder dividend performance that is consistently among the best in the industry.

Expense management – Great-West and London Life continue to experience benefits from integrating our product development, administration and service operations. Total expenses declined, for the third consecutive year, by 2% or \$16 million over 1999.

Continued financial strength – Great-West continued to receive superior ratings on our claims-paying ability and financial strength from the major rating agencies. Our Minimum Continuing Capital and Surplus Requirements ratio, although decreased somewhat to 196%, remains very strong. The decrease reflects our reorganization, which saw our United States subsidiary become a sister company, owned by Great-West Lifeco.

Earlier in the year, the Canadian Bond Rating Service realigned the investment strength ratings for Great-West Life and London Life, from AAA to AA+, to better align our ratings with those of the companies' recently-rated industry peers. The AA+ rating is the highest rating given by CBRS to any Canadian life insurance company.

Legislative developments – Rapid changes in the financial services marketplace have resulted in more choices for consumers as well as more competitive pressures for providers of financial services. We are pleased with the proposed federal financial regulation package that offers increased competitive flexibility for insurers as well as enhanced protection for consumers. While the proposed legislation doesn't resolve all the issues faced by the industry, we believe it strikes an appropriate balance and look forward to its proclamation.

focused **on** support



Our vast array of products make their way to clients through strong distribution channels supported by the specialized expertise of people in our offices across Canada.



We administer one in five defined contribution retirement plans, and offer clients the support of Canada's largest network of group retirement specialists.

focused on solutions



In 2000 we embraced a number of new opportunities that resulted in a stronger array of financial solutions for our clients across Canada.

Competitive advantages

The environment of consolidation in the financial services industry has left companies with two primary alternatives for success: to carve out a profitable niche, or achieve dominance through economies of scale.

At Great-West, we've followed the latter strategy, and it's one of the features that distinguishes Great-West and London Life from our competitors – we enjoy a leading market share in each of our core domestic businesses.

One of Great-West's primary strengths is our distribution strategy. The Company has harnessed the two dominant distribution strategies in the industry – multi-channel and exclusive channel – and capitalized on the best features of each.

London Life's exclusive distribution channel of 2,700 financial security advisors coupled with its widely recognized Freedom 55 brand, has helped it develop a large client base of nearly two million people. Freedom 55 Financial security advisors now distribute a number of Great-West products, including our leading disability and small group insurance products.

Distribution alliances with selected financial institutions mean Great-West's disability insurance and group insurance products are also

available through thousands of advisors and brokers, who are supported by product experts and service representatives across the country.

These alliances also give our financial security advisors access to a broad array of third-party products developed by market leaders.

Ultimately, this means Great-West can produce and distribute a comprehensive array of financial security products and services at low unit cost – whether to a family in B.C. or a business in the Maritimes.

Partnerships

In 2000 we continued to seek out alliances with leading financial institutions. These partnerships allow us to concentrate on areas where we excel, while expanding our product offerings to meet clients' full financial security needs.

These initiatives include:

- An alliance, in conjunction with Investors Group, with Canadian Imperial Bank of Commerce, a leader in e-banking in Canada.

This agreement will allow us to offer a comprehensive range of banking products through our financial security advisor networks nationwide.



Together with London Life, Great-West is a leading provider of life insurance, disability insurance and segregated funds in Canada.

Developing a strategy for introducing these products is a key priority for 2001.

- Alliances with two leading insurers that expanded the range of life insurance and investment products offered through our distribution channels, and increased the distribution reach for Great-West's disability and small group insurance products.
- An agreement that sees Great-West become the preferred successor carrier for the small group clients of an insurer exiting this market. This should enhance sales and expand our distribution system in this market in 2001.

We also joined with London Life to launch an expanded mutual fund dealer, *Quadrus Investment Services Ltd.*TM, serving the needs of both Great-West and Freedom 55 Financial distribution channels.

Through Quadrus, we launched 40 mutual funds under the *Quadrus Group of Funds*TM, a new mutual fund family, and introduced 12 new segregated funds at Great-West.

As well, we introduced individually managed portfolios, or wraps, for high-net-worth clients who pay a fee for investment advisory services.

The launch of Quadrus marks Great-West's entry into the mutual fund market, enabling our financial security advisors to direct their business through an "in-house" service.

Since the end of 1997, we have collaborated with London Life and Investors Group to enhance the competitiveness of our separate distribution networks. This strategy allows us to broaden and deepen the percentage of financial assets we administer on behalf of a client, and enables our financial security advisors to provide higher quality and more complete financial services and advice. It also allows us to continue to grow without requiring a large capital investment.

Service

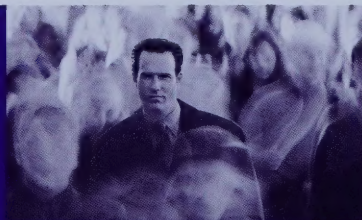
The Internet has emerged as an important vehicle for information and service. In recognition of this, Great-West introduced *Your Key Connection*, an extranet for its distribution channels.

This one-stop centre for technology, client information, marketing and reference materials, software and industry news has proven a valuable resource for our sales force.

focused **on** people



The success of our company – past, present and future – is derived from our people. In more than 100 offices across Canada, our people are key to meeting our clients' needs every day. While our clients may not be aware of the people who are working behind the scenes on their behalf, they can enjoy the security of knowing that their financial needs are being taken care of by some of the best in the industry.



QUADRUS

Quadrus Investment Services Ltd.

focused **on** communities



At Great-West, we have always believed in the importance of combining our financial strength with a firm commitment to the communities where we live and work.

We also launched a new web site, *www.grsaccess.com*, providing information and real time transactional access to plan advisors, sponsors and members around the clock.

For group benefit plan sponsors, we introduced real-time online enrolment and laid the groundwork to roll out our highly competitive online administration system, *GroupNet™*, to small group clients in 2001. We also began work on a major initiative to give group benefit plan sponsors, plan members and producers direct access to our administration systems to perform a range of real-time transactions.

Diversity and growth

In addition to the strong performance of our traditional insurance businesses, we enjoy the benefits of several important sources of diversification, including:

Reinsurance – Our reinsurance business, operated through London Reinsurance Group Inc., (LRG) has a strong strategic position in a number of niche reinsurance and retrocession markets.

In 2000, LRG expanded its annuity reinsurance capabilities. In addition to being a leading reinsurer of deferred annuity products, LRG is now a leader in the reinsurance of guaranteed maturity benefit protections within the various types of annuities currently being sold.

Real estate advisory services – Our subsidiary, GWL Realty Advisors Inc.,

provides real estate investment and advisory services for large institutional clients across Canada. In 2000, GWL Realty Advisors completed its largest real estate acquisition to date on behalf of a client – over \$800 million for seven properties. With \$4.2 billion in assets under management, GWL Realty Advisors is the largest company of its kind in Canada.

Communities

Along with London Life, we are working to make a difference in communities throughout Canada through our national community relations program.

We provide financial support focused on education, health and wellness, arts and culture, social services and community programs.

Examples include:

Encouraging arts awareness

- Nationally recognized supporter of arts programs for youth, audience development and community outreach programs

Supporting education

- \$1 million combined gifts to the Ivey School of Business and the University of Winnipeg
- Advancing opportunities in partnership with the National Aboriginal Achievement Foundation, Frontier College, ABC Canada and Centre d'entreprises et d'innovation de Montréal.

"We believe that the advice channel is the future of the financial services industry. Clients may seek the convenience of the Internet to gain knowledge, but they will rely on their financial advisor to help them determine their financial goals and solutions. Fortunately, we have strong channels to meet these needs and will continue to look at ways to strengthen them even more."

R. L. McFeetors

Addressing major health concerns

- Contributor of financial and leadership support to CancerCare Manitoba
- Advancing promising research through the Canadian Diabetes Association Young Scientist Award and the Heart and Stroke Foundation of Canada

Meeting community needs

- Contribute more than \$1 million annually through corporate donations and workplace campaigns to the United Way
- National sponsor of Huron Carole Benefit Concerts in support of the Canadian Association of Foodbanks

Our success is derived from working directly with community organizations and collaboratively with our network of field offices across the country. As well, we encourage and take pride in the many employees and representatives who work side-by-side with organizations in their communities. We recognize their leadership by supporting appropriate organizations with which they volunteer.

Focused on the future

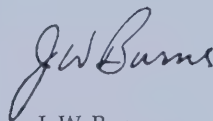
In 2001 we will continue to focus on our key strengths: our leading market share in our core business; the quality, strength and expertise of our people; the competitive advantages afforded by our distribution strategy; and the important work and contributions we continue to make in our communities across Canada.

The partnerships we have established with other leaders in the financial services industry continue to offer exceptional value to our clients and shareholders. Alliances such as that with CIBC bring us closer to the day-to-day needs of our clients, enabling us to fulfill a broad spectrum of financial needs. We will continue to look within the financial services industry for other possible arrangements that would continue to allow us to grow.

While the future is never entirely predictable, we are clearly focused on what we need to do to continue to bring value to our shareholders and clients. By focusing on our strengths — our people, our products, our services and our proven track record — we are confident that we are on the path to continued success.

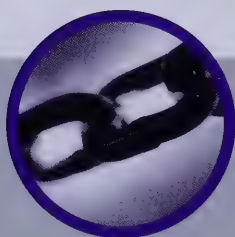


R. L. McFeetors
President and Chief Executive Officer



J. W. Burns
Chairman of the Board





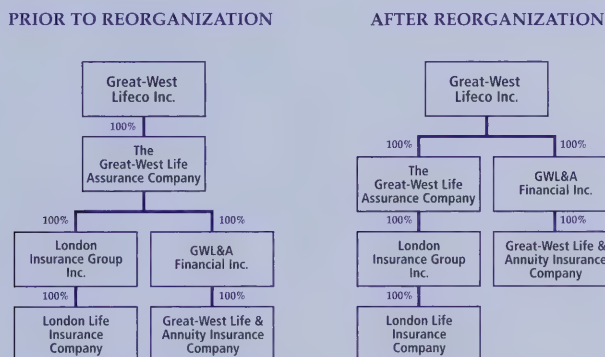
MD&A contents

Consolidated Operating Results	12
Net income	
Total assets under administration	
Policy liabilities	
Commercial paper and other loans	
Capital stock and surplus	
Financial strength	
Risk management and control practices	
The Great-West Life Assurance Company	18
Net Income	
Premiums and deposits	
Assets	
Business segments	
United States Operations	32

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the financial position and performance of The Great-West Life Assurance Company (Great-West) in 2000 compared with 1999. The MD&A provides an overall discussion, followed by analysis of the performance of the Company's major reportable segments.

On December 31, 2000 Great-West conveyed ownership of its United States subsidiary, Great-West Life & Annuity Insurance Company (GWL&A), to a newly-formed subsidiary of Great-West Lifeco Inc. (Lifeco). This simplified structure, resulting from the corporate reorganization, is depicted below in a condensed form and is reflected in the consolidated financial position of Great-West.



With the corporate reorganization occurring at December 31, 2000, the Company's Summary of Consolidated Operations for the period ending December 31, 2000 reflects full year operations on a basis consistent with 1999, while the Consolidated Balance Sheet and Consolidated Statement of Surplus reflect the post-reorganization position at December 31, 2000 and, in accordance with generally accepted accounting principles, there is not a restatement of December 31, 1999 comparative figures.

Translation of United States Dollars

Throughout this report, United States dollar assets and liabilities are translated into Canadian dollars at the market rate at December 31 for the respective years. All income and expense items are translated at an average rate for the year. The rates employed by year are:

Years ended December 31	Balance Sheet	Operations
2000	\$ 1.5000	\$ 1.4853
1999	1.4433	1.4856
1998	1.5300	1.4835

Forward-looking Statements

This annual report may contain forward-looking statements. Please see the note on page 4 for more information.

Businesses

Through Great-West and London Life Insurance Company (London Life) a wide range of life and health insurance, and retirement and investment products are sold to individuals, businesses and other private and public organizations in Canada. As well, Great-West offers specialty reinsurance and general insurance products in specific niche markets through its subsidiaries, London Reinsurance Group Inc. and London Guarantee Insurance Company.

2000 CONSOLIDATED OPERATING RESULTS

The Great-West Life Assurance Company

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(in \$ millions, except per common share amounts)

	2000			1999			
	Canada	U.S.	Total	Canada	U.S.	Total	% Change
FOR THE YEAR							
Premiums:							
Life insurance, guaranteed annuities and insured health products	\$ 3,748	\$ 3,350	\$ 7,098	\$ 3,690	\$ 2,761	\$ 6,451	10 %
Reinsurance and property and casualty	2,878	—	2,878	2,075	—	2,075	39 %
Self-funded premium equivalents (ASO contracts) ⁽¹⁾	1,102	7,695	8,797	1,039	4,425	5,464	61 %
Segregated funds deposits: ⁽¹⁾							
Individual products	1,817	959	2,776	1,344	618	1,962	41 %
Group products	1,673	3,652	5,325	769	3,219	3,988	34 %
Total premiums and deposits	<u>\$ 11,218</u>	<u>\$ 15,656</u>	<u>\$ 26,874</u>	<u>\$ 8,917</u>	<u>\$ 11,023</u>	<u>\$ 19,940</u>	<u>35 %</u>
Fee and other income	346	1,295	1,641	278	944	1,222	34 %
Paid or credited to policyholders	7,423	3,951	11,374	6,547	3,389	9,936	14 %
Summary of net income attributable to:							
Participating policyholders							
Net income before policyholder dividends	559	185	744	578	169	747	—
Policyholder dividends	536	181	717	515	149	664	8 %
Net income – participating policyholders	23	4	27	63	20	83	-67 %
Shareholders							
Preferred shareholder dividends	31	6	37	33	6	39	-5 %
Net income – common shareholders	268	386	654	227	322	549	19 %
	299	392	691	260	328	588	18 %
Net Income	<u>\$ 322</u>	<u>\$ 396</u>	<u>\$ 718</u>	<u>\$ 323</u>	<u>\$ 348</u>	<u>\$ 671</u>	<u>7 %</u>
Return on common shareholders' equity			19.1 %			17.4 %	
PER COMMON SHARE							
Net earnings		\$ 274.95			\$ 231.28		19 %
Dividends paid – Regular		140.00			92.00		52 %
– Special		31.53			—		—
Book value		1,417.00			1,369.00		4 %
AT DECEMBER 31							
Total assets	\$ 33,037	\$ 271	\$ 33,308	\$ 32,285	\$ 21,184	\$ 53,469	-38 %
Segregated funds assets ⁽¹⁾	18,682	—	18,682	15,730	17,998	33,728	-45 %
Total assets under administration	<u>\$ 51,719</u>	<u>\$ 271</u>	<u>\$ 51,990</u>	<u>\$ 48,015</u>	<u>\$ 39,182</u>	<u>\$ 87,197</u>	<u>-40 %</u>
Capital stock and surplus		\$ 3,448			\$ 5,347		-36 %

⁽¹⁾ Segregated funds deposits and self-funded premium equivalents (ASO contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, the Company does earn fee and other income related to these contracts.

Segregated fund business is an option offered under an insurance annuity contract, where the benefit amount is directly linked to the market value of the investments held in the particular segregated account. The contractual arrangements are such that the segregated fund contract holder bears the risks and rewards of the account's investment performance apart from death and maturity benefit guarantees. ASO Group health contractual agreements are those where the Company provides administrative and claim paying services for clients, and under these arrangements, the client bears some or all of the claim risk. The self-funded premium equivalents generally represent claims paid under these contracts which approximate the additional premiums that would have been earned if these contracts had been written as traditional risk programs.

Both segregated fund and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Quarterly Financial Information

(in \$ millions, except per common share amounts)

		Total Revenue	Net Income					
			Participating Policyholders			Common Shareholders		
			Net income before Policyholder Dividends	Policyholder Dividends	Net (undistributed) Income ⁽¹⁾	Net Income	Earnings per Common Share	
2000	Fourth quarter	\$ 4,243	\$ 172	\$ 181	\$ (9)	\$ 177	\$ 74.54	
	Third quarter	3,705	186	184	2	167	70.16	
	Second quarter	3,729	194	179	15	167	70.09	
	First quarter	3,590	192	173	19	143	60.16	
1999	Fourth quarter	\$ 3,704	\$ 194	\$ 172	\$ 22	\$ 147	\$ 61.53	
	Third quarter	3,147	189	169	20	139	58.86	
	Second quarter	3,216	178	162	16	140	58.95	
	First quarter	3,259	186	161	25	123	51.94	

(1) Net (undistributed) income for participating policyholders represents the in-year earnings for the account(s) after dividend distributions.

NET INCOME

The following discussion includes the operations of GWL&A as it was a part of Great-West's consolidated operations for the full year 2000.

Great-West's net income for 2000 was \$718 million, which compares to \$671 million for 1999. Net income attributable to common shareholders increased 19% to \$654 million or \$274.95 per share, compared to \$549 million or \$231.28 per share for 1999. The return on common shareholders' equity was 19.1% for the year ended December 31, 2000.

Net income for participating policyholders before policyholder dividends was \$744 million against \$747 million in 1999. Policyholder dividends were \$717 million for 2000 compared to \$664 million for 1999.

Net Income Common Shareholders – Geographic

(in \$ millions)

	2000	1999	% Change
Canadian operations	\$ 268	\$ 227	18 %
United States operations	386	322	20 %
	<u>\$ 654</u>	<u>\$ 549</u>	<u>19 %</u>

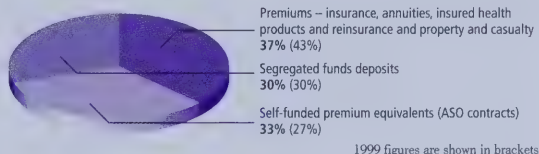
For Canadian operations, the increase in net income in 2000 reflected growth in fee income, strong investment performance and favourable morbidity experience, mitigated by a deterioration in reinsurance margins. Net income in 2000 also reflected a reduction in provisions for Canadian income taxes stemming from federal government announcements in 2000, offset by a provision related to

reducing the Company's exposure in Taiwan.

The positive earnings result from United States operations was due to a combination of increased fee income, strong investment performance and favourable morbidity experience, offset somewhat by unfavourable group mortality experience.

Premiums and Deposits

Overall, premiums and deposits increased 35% over 1999. Within this result, growth of 48% in fee-based products reflects the emphasis on, and success of, the Company's expansion in the segregated fund markets in both Canada and the United States, as well as in the Group administrative services only (ASO) market, particularly in the United States.



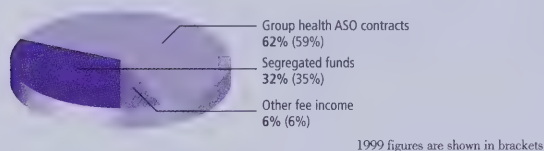
1999 figures are shown in brackets

At December 31, 2000, 63% of premium income is from fee-based products (57% in 1999) rather than the traditional risk-based contracts.

In Canada, 31% of premium income is from segregated funds products, and fee-based products account for 41% of premium income in total. In the United States, fee-based products account for 79% of premium income, of which ASO business represents 49%.

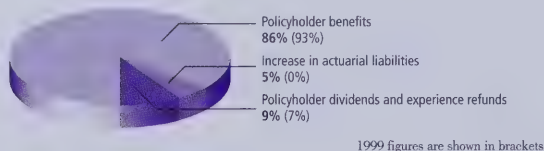
Fee and Other Income

Overall, fee income was up 34% over 1999 (24% in Canada and 37% in the United States) due mainly to the increase in segregated funds assets in Canada and the increase in ASO business in the United States.



Paid or Credited to Policyholders – Total

The amount paid or credited to policyholders increased 14% from 1999 levels. However that amount only includes guaranteed contracts and does not include benefit payments related to ASO or segregated funds products.



TOTAL ASSETS UNDER ADMINISTRATION – Continuing Operations

Total assets under administration increased 8% in 2000 to \$52 billion for continuing operations. General funds assets increased 2% overall, while segregated funds assets increased 19%.

The following discussion compares the December 31, 2000 balance sheet of Great-West after the corporate reorganization (excludes GWL&A) to the adjusted 1999 balance sheet (excludes GWL&A).

Asset Quality – Excluding GWL&A

At December 31, 2000, exposure to mortgage loans and real estate was 32% of invested assets, compared with 30% a year earlier.

Asset Distribution

December 31 (in \$ millions)

	2000		1999	
Government bonds	\$ 5,750	21 %	\$ 7,624	28 %
Corporate bonds	10,026	37	9,227	33
Mortgages	7,522	28	7,535	27
Stocks	1,021	4	742	3
Real estate	1,042	4	947	3
Sub-total portfolio investments	25,361		26,075	
Cash & certificates of deposit	352	1	281	1
Policy loans	1,368	5	1,292	5
Total invested assets	\$ 27,081	100 %	\$ 27,648	100 %

The Company's exposure to non-investment grade bonds was 1.1% of the portfolio at the end of 2000, up from 0.9% at December 31, 1999.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled \$38 million or 0.1% of invested assets at December 31, 2000, compared with \$61 million or 0.2% a year earlier. The Company's allowance for credit losses at December 31, 2000 was \$43 million compared with \$57 million at year-end 1999.

Additional provisions for future credit losses on assets backing actuarial liabilities are included in actuarial liabilities and amounted to \$327 million at December 31, 2000 (\$268 million at December 31, 1999).

The combination of the allowance for credit losses of \$43 million, together with the \$327 million provision for future credit losses in actuarial liabilities represents 1.5% of bond, mortgage and real estate assets at December 31, 2000 (1.3% at December 31, 1999).

POLICY LIABILITIES – Excluding GWL&A

Reference is made to note 5 of Great-West's financial statements, *Actuarial Liabilities*, which presents the composition, nature, changes, assumptions and risk management issues associated with this significant balance sheet item.

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Asset and liability cash flows are carefully matched to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has shielded the Company's financial position from past significant interest rate volatility.

COMMERCIAL PAPER AND OTHER LOANS – Excluding GWL&A

On August 9, 2000, London Life issued \$200 million of 6.75% Subordinated Debentures to Lifeco. On October 16, 2000 London Insurance Group (LIG) redeemed its \$100 million 9.375% Senior Debentures.

As described in note 6 to the financial statements, the Company now has \$263 million of capital securities issued in Canada.

CAPITAL STOCK AND SURPLUS – Excluding GWL&A

During 2000, the Company paid dividends of \$171.53 per common share (regular \$140.00, special \$31.53) for a total of \$408 million (regular \$333 million, special \$75 million) and preferred share dividends of \$37 million. This represents an increase in regular common share dividends paid of 52% compared to 1999. A reduction in preferred share dividends of \$2 million for the same period was mainly due to the Company having redeemed \$125 million of 7.50% preferred shares on April 1, 1999.

Also during 2000,

- (i) as part of the corporate reorganization described in note 2, 1,209,292 Common Shares of the Company were purchased for cancellation at a stated value of \$497 million.
- (ii) The Company and its parent company, Lifeco, exchanged 4,000,000 Series K, 7.25% Non-Cumulative Perpetual Preferred Shares and 2,264,000 of the outstanding 5,175,955 Series N, 5.00% Non-Cumulative Preferred Shares for 30,520 Common Shares with a stated value of \$157 million.
- (iii) Through a new wholly-owned subsidiary, Lifeco purchased 8,965,498 Series L 5.20% Non-Cumulative Preferred Shares of Great-West in a private transaction.

- (iv) Lifeco and Great-West made a joint offer dated December 14, 2000 to purchase the remaining 9,030,014 Great-West Series L Preferred Shares not held directly or indirectly by Lifeco for either \$23.00 cash or one Great-West Series O 5.55% Preferred Share for each Series L Share. The joint offer closed on January 5, 2001, with Lifeco acquiring a further 658,311 Series L Shares, which increased its holding to 9,623,809 Series L Shares, and 6,278,671 new Great-West Series O Preferred Shares being issued in exchange for 6,278,671 Series L Preferred Shares. After the transaction, there are 11,716,841 Great-West Series L shares outstanding with 2,093,032 publicly held.

These activities, coupled with the strong earnings from operations resulted in capital and surplus increasing 2% to \$3,448 million.

FINANCIAL STRENGTH – Excluding GWL&A

The Office of the Superintendent of Financial Institutions Canada (OSFI) has specified a capital measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). Great-West's ratio at the end of 2000 was 196% (210% at the end of 1999), which reflects the impact of the corporate reorganization at December 31, 2000.

During the year, the Canadian Bond Rating Service (CBRS) realigned the investment strength ratings for London Life and Great-West, from AAA to AA+, to better align the Company's ratings with those of its industry peers. The AA+ rating is the highest rating given by CBRS to any Canadian life insurance company.

All other financial ratings were reaffirmed by the rating agencies.

Ratings of Great-West and London Life

Rating Agency	Measurement	Ratings	
		Great-West	London Life
A.M. Best Company	Financial Condition and Operating Performance	A++*	A++*
Canadian Bond Rating Service	Investment Strength	AA+	AA+
Dominion Bond Rating Service	Claims Paying Ability	IC-1*	IC-1*
Fitch, Inc.	Insurer Financial Strength	AAA*	AAA*
Moody's Investors Service	Insurance Financial Strength	Aa2	Aa2
Standard & Poor's Corporation	Insurer Financial Strength	AA+	AA+

* Highest rating available

All CBRS ratings are as of October 31, 2000

RISK MANAGEMENT AND CONTROL PRACTICES

Risks Associated with Policy Liabilities

Insurance companies are in the business of assuming and managing risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return, and as experience unfolds pricing assumptions are validated and profit emerges in each accounting period. Policy liabilities reflect reasonable expectations about future risk events, together with a margin. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires updated assumptions to reflect emerging experience results. In this way, the balance sheet reflects the current outlook for future policyholder obligations.

The Board of Directors of Great-West has approved Standards of Sound Business and Financial Practice for both Pricing and Underwriting (Selection of Risks) of product offerings. Management is responsible for effective execution of these policies. A compliance process is in place for these policies. The Actuary is required to value the policy liabilities and report on the financial condition of each operating company. The Audit Committee of the Board reviews the work of the Actuary.

The significant risks and related monitoring and control practices of Great-West's operating companies are:

Mortality and Morbidity Risk – Many products provide benefits in the event of death. Benefits due to disabling conditions and medical or dental costs are also important product features. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the markets where the Company is active.

Persistency (Policy Termination) Risk – Products are priced and valued to reflect the expected duration of contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for long-term level premium products where costs increase by age and pricing assumes that some policyholders will discontinue their coverage. Annual research studies support pricing and valuation assumptions for this persistency risk.

Investment Yield Risk – Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between pricing, valuation and investment management is required to control this risk. Investment policies have been approved by the Boards of Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment. Yield rates are derived from the actual mix of assets put in place. Products with longer term cash flows and pricing guarantees carry more risk. Both pricing and valuation react

to this risk by requiring higher margins where there is less yield certainty.

Reinsurance Risk – Products with mortality and morbidity risks have specific limits of Company retention approved by the Boards of Directors on the recommendation of the Actuary. These limits are reviewed and updated from time to time. The Company also takes advantage of financial risk transfer through reinsurance to enhance earnings. Companies providing reinsurance are reviewed for financial soundness as part of the ongoing monitoring process. The Company is also protected from catastrophic events through purchased coverage.

For additional information on these risks, refer to note 5(d), 5(e) and 5(f) of the Great-West financial statements.

Risks Associated with Invested Assets

The Company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability.

The Boards of Directors or the Executive Committees and the Investment and Credit Committees of the Boards of Directors annually approve Investment & Lending Policies as well as Procedures and Guidelines. A comprehensive report on compliance with these policies, procedures and guidelines is presented to the Boards of Directors or Investment and Credit Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant risks associated with invested assets that the Company manages, monitors and controls are outlined below.

Interest Rate Risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change.

For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Derivative products are used only to hedge imbalances in asset and liability positions; they are not used for speculative purposes. Derivative products are traded with counterparties approved by the Board of Directors or the Investment and Credit Committee of the Board of Directors. They may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts.

Credit Risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class.

Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review. These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment and Credit Committees of the Boards of Directors.

Off-balance sheet credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Liquidity Risk – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and has approximately \$15 billion in highly marketable securities.

Foreign Exchange Risk – Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

Other Risks – The Company has established specific policy guidelines and monitoring procedures related to environmental risk management in the investment portfolios.

Derivative Instruments

The Company's risk management process governing the use of derivative instruments, includes:

- The Company acts only as an end-user of derivative products, not as a market maker.
- The Company has strict operating policies which:
 - prohibit the use of derivative products for speculative purposes,
 - permit transactions only with approved counterparties,
 - specify limits on concentration of risk,
 - document approval and issuer limits, and
 - document the required reporting and monitoring systems.

The Company's outstanding derivative products at December 31 and the related exposures are described in note 12 of Great-West's financial statements.

THE GREAT-WEST LIFE ASSURANCE COMPANY

FINANCIAL INFORMATION – CANADIAN OPERATIONS

(in \$ millions)

Years ended December 31

	2000			1999			% Change
	Shareholders	Participating Policyholders	Total	Shareholders	Participating Policyholders	Total	
Income:							
Premium income ⁽¹⁾	\$ 5,324	\$ 1,302	\$ 6,626	\$ 4,484	\$ 1,281	\$ 5,765	15 %
Net investment income	1,250	936	2,186	1,277	915	2,192	– %
Fee and other income	346	–	346	278	–	278	24 %
Total income	6,920	2,238	9,158	6,039	2,196	8,235	11 %
Benefits and Expenses:							
Paid or credited to policyholders	5,560	1,863	7,423	4,775	1,772	6,547	13 %
Other	819	260	1,079	776	273	1,049	3 %
Net operating income before income taxes	541	115	656	488	151	639	3 %
Income taxes	167	83	250	140	94	234	7 %
Net income before minority shareholders' interests	374	32	406	348	57	405	– %
Minority shareholders' interests of London Insurance Group							
Preferred shareholder dividends	21	–	21	18	–	18	17 %
Minority shareholders' interests	(6)	9	3	11	(7)	4	-25 %
	15	9	24	29	(7)	22	9 %
Net income before amortization of goodwill	359	23	382	319	64	383	– %
Amortization of goodwill	60	–	60	59	1	60	– %
Net income	\$ 299	\$ 23	\$ 322	\$ 260	\$ 63	\$ 323	– %

Summary of Net Income

Attributable to participating policyholders

Net income before policyholder dividends	\$ –	\$ 559	\$ 559	\$ –	\$ 578	\$ 578	-3 %
Policyholder dividends	–	536	536	–	515	515	4 %
Net income – participating policyholders	–	23	23	–	63	63	-63 %

Attributable to shareholders

Preferred shareholder dividends	31	–	31	33	–	33	-6 %
Net income – common shareholders	268	–	268	227	–	227	18 %
	299	–	299	260	–	260	15 %

Net income	\$ 299	\$ 23	\$ 322	\$ 260	\$ 63	\$ 323	– %
-------------------	---------------	--------------	---------------	---------------	--------------	---------------	------------

(1) excludes – segregated funds deposits	\$ 3,490	\$ –	\$ 3,490	\$ 2,113	\$ –	\$ 2,113	65 %
– self-funded premium equivalents (ASO)	\$ 1,102	\$ –	\$ 1,102	\$ 1,039	\$ –	\$ 1,039	6 %

Reference is made to note 15 of the Great-West financial statements, Segmented Information, for the presentation of Canadian Operations.

Net Income

Years ended December 31 (in \$ millions)

	2000	1999	% Change
Net Income			
Net income before			
policyholder dividends	\$ 559	\$ 578	-3 %
Policyholder dividends	536	515	4 %
Par policyholders	23	63	-63 %
Shareholders			
Group Insurance	66	37	78 %
IHP	129	107	21 %
Reinsurance &			
Specialty Insurance	34	66	-48 %
Corporate	70	50	40 %
	<u>\$ 322</u>	<u>\$ 323</u>	<u>-</u>

Net income from Great-West's Canadian Operations for 2000 was \$322 million, compared to \$323 million for 1999. Net income attributable to common shareholders was \$268 million, up from \$227 million for 1999.

The net increase in income attributable to common shareholders in 2000 reflected growth in fee income, strong investment performance and favourable morbidity experience, mitigated by a deterioration in reinsurance margins. Net income in 2000 also reflected a reduction in provisions for Canadian income taxes stemming from federal government announcements in 2000, offset by a provision related to reducing the Company's exposure in Taiwan.

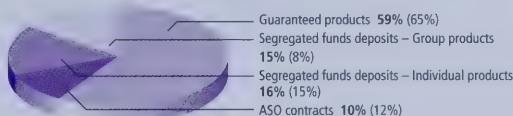
In terms of reportable segments for Canadian Operations, the increased net operating income reflects a significant

recovery in Group Insurance health account profitability from 1999 levels, and an increase in the Individual Insurance & Investment Products income, particularly for retirement products. The reduced reinsurance margins and the provision related to Taiwan exposures are both reported in the Reinsurance & Specialty General Insurance segment.

PREMIUMS AND DEPOSITS

Total premiums and deposits were up 26% overall from 1999 levels. Guaranteed product premiums increased 15%, while self-funded premium equivalents (ASO contracts) were up 6%. Deposits to individual segregated funds grew 35%, while deposits to group accounts were more than double 1999 levels.

Within guaranteed or traditional risk premium income, annuity premiums declined as customers continue to show a preference for segregated funds. Reinsurance and specialty general insurance premiums increased 39% related to both the property and casualty and life insurance lines. This segment of business can reflect significant revenue increases or decreases depending on the structure of the contract and often is not related to profitability.



1999 figures are shown in brackets

Premiums and Deposits

Years ended December 31 (in \$ millions)

Business/Product	Premiums and Deposits			Sales		
	2000	1999	% Change	2000	1999	% Change
Group Insurance						
Small/mid-sized case	\$ 967	\$ 898	8 %	\$ 139	\$ 108	29 %
Large case	2,007	1,883	7 %	104	94	11 %
Individual Insurance						
Life insurance						
- Participating	1,302	1,281	2 %	57	64	-11 %
- Non-Participating	262	257	2 %	39	41	-5 %
Disability income	109	102	7 %	20	20	-
Retirement & Investment Services	3,693	2,421	53 %	4,230	2,888	46 %
Reinsurance & Specialty General Insurance	2,878	2,075	39 %	2,878	2,075	39 %
	<u>\$ 11,218</u>	<u>\$ 8,917</u>	<u>26 %</u>	<u>\$ 7,467</u>	<u>\$ 5,290</u>	<u>41 %</u>
Summary by Type						
Guaranteed products	\$ 6,626	\$ 5,765	15 %			
ASO contracts	1,102	1,039	6 %			
Segregated funds deposits:						
- Individual products	1,817	1,344	35 %			
- Group products	1,673	769	118 %			
Total premiums and deposits	<u>\$ 11,218</u>	<u>\$ 8,917</u>	<u>26 %</u>			

Net Investment Income

Years ended December 31 (in \$ millions)

	2000	1999	% Change
Gross investment income	\$ 2,201	\$ 2,211	- %
Investment expenses	15	19	-21 %
Net investment income	\$ 2,186	\$ 2,192	- %

Net investment income for 2000, representing the investment revenues from general funds assets (excludes segregated funds assets) was essentially unchanged from 1999, reflecting a combination of market conditions and reduced investment expenses.



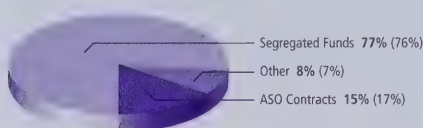
1999 figures are shown in brackets

Fee Income

Years ended December 31 (in \$ millions)

	2000	1999	% Change
Segregated funds	\$ 268	\$ 210	28 %
ASO contracts	51	49	4 %
Other	27	19	42 %
	\$ 346	\$ 278	24 %

Fee income is derived from the management of segregated funds assets and the provision of Group health ASO business. The increase in fee income in 2000 is mainly due to increases of \$58 million or 28% in segregated fund related fees compared to 1999.



1999 figures are shown in brackets

Paid or Credited to Policyholders

This amount is made up of increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and experience refund payments for guaranteed products, but does not include payment amounts for fee-based products (ASO contracts and segregated funds).

In aggregate, \$7.4 billion was paid or credited to policyholders in 2000, an increase of 13% compared to 1999.

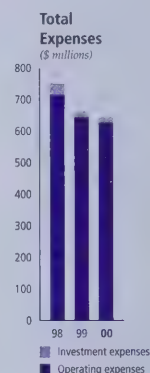
Policyholder dividends credited in 2000 were \$536 million, compared to \$515 million in 1999. In 1999, policyholder dividends were reduced on some policies effective April 1.

In 2000, policyholder dividends continued to reflect the impact of those lower payment levels in response to reduced portfolio investment yields.

Other

Included in other benefits and expenses are operating expenses and commissions, as well as premium taxes.

Operating expenses for 2000 are lower than 1999 levels by 2% or \$12 million, continuing to reflect synergies realized from the integration of Great-West and London Life operations. On a total basis, aggregate expenses including investment expenses are down 2% or \$16 million from 1999 levels, and down 14% or \$106 million over two years from the comparable 1998 base.



Years ended December 31 (in \$ millions)

	2000	1999	% Change
Total expenses	\$ 645	\$ 661	-2 %
Less: Investment expenses	15	19	-21 %
Operating expenses	630	642	-2 %
Commissions	390	342	14 %
Premium taxes	59	65	-9 %
Total	\$ 1,079	\$ 1,049	3 %

Income Taxes

The reductions in current and future corporate income tax rates and the rate of inclusion for capital gains proposed in the February and October federal government announcements have been assumed to be substantially enacted and were applied in the calculation of current and future tax values. The impact of these changes, together with a favourable re-estimate of existing tax liabilities resulted in an increase in shareholder income of \$25 million for the year ended December 31, 2000.

ASSETS

Total assets under administration increased 8% to \$51.7 billion when compared to 1999. Segregated funds assets increased 19% and general funds assets increased 2%, reflecting the continuing preference of consumers for segregated funds over guaranteed funds.

Invested Assets

The Investment Division manages the general funds assets of Great-West and London Life. The division manages portfolios of assets that support the cash flow, liquidity and profitability requirements of the Company's insurance and

Consolidated Balance Sheet

December 31 (in \$ millions)

	2000			1999		
	Shareholders	Participating Policyholders	Total	Shareholders	Participating Policyholders	Total
Assets						
Invested assets	\$ 14,100	\$ 12,716	\$ 26,816	\$ 15,074	\$ 12,292	\$ 27,366
Goodwill	1,575	—	1,575	1,629	—	1,629
Other assets	4,154	492	4,646	2,900	390	3,290
Total assets	\$ 19,829	\$ 13,208	\$ 33,037	\$ 19,603	\$ 12,682	\$ 32,285
Segregated funds assets			18,682			15,730
Total assets under administration			\$ 51,719			\$ 48,015
Liabilities, policyholders' & shareholders' equity						
Policy liabilities	\$ 15,104	\$ 11,193	\$ 26,297	\$ 15,216	\$ 10,551	\$ 25,767
Net deferred gains on portfolio investments sold	512	482	994	536	557	1,093
Other liabilities	1,587	308	1,895	1,264	370	1,634
Total liabilities	17,203	11,983	29,186	17,016	11,478	28,494
Minority shareholders' interests	460	—	460	467	—	467
Capital stock and surplus	2,166	1,225	3,391	2,120	1,204	3,324
Total general funds liabilities, policyholders' & shareholders' equity	\$ 19,829	\$ 13,208	\$ 33,037	\$ 19,603	\$ 12,682	\$ 32,285

investment products. The Investment Division invests the majority of the general funds in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Great-West and London Life follow prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Investment Division implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions.

New investments in 2000, including reinvestment of maturing assets, were primarily in bonds and mortgages, with a small increase in exposure to the equity markets.

Net investment income was \$2.2 billion in 2000, the same level as 1999. Improved bond returns and strong equity and

real estate performance offset the slight decrease in invested assets and the maturities of higher rate fixed income investments.

Bond Portfolio

Investment in government and corporate bonds represented a smaller portion of investment activity in 2000 than in prior years. The total bond portfolio decreased by \$1.1 billion to \$15.5 billion, reflecting the continuing shift towards segregated funds assets. Federal, provincial and other government securities represented 37% of the bond portfolio, down from 46% in 1999.

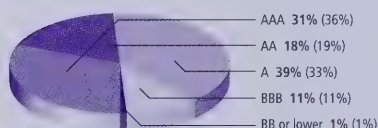
The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 88% rated A or higher. Book value of non-performing bonds was \$20 million or 0.1% of bonds at year-end 2000; there were no non-performing bonds a year ago. Total allowances for

Asset Distribution

December 31 (in \$ millions)

	2000		1999	
Government bonds	\$ 5,741	21 %	\$ 7,624	28 %
Corporate bonds	9,804	37	8,976	33
Mortgages	7,522	28	7,535	27
Stocks	1,020	4	740	3
Real estate	1,040	4	947	3
Sub-total portfolio investments	25,127		25,822	
Cash & certificates of deposit	336	1	278	1
Policy loans	1,353	5	1,266	5
Total invested assets	\$ 26,816	100 %	\$ 27,366	100 %

credit losses increased to \$16 million from \$3 million a year ago.



1999 figures are shown in brackets

Bond Portfolio Quality

(excludes \$692 million short-term investments, \$701 million in 1999)

December 31 (in \$ millions)

	2000		1999	
Estimated Rating				
AAA	\$ 4,558	31 %	\$ 5,734	36 %
AA	2,745	18	3,050	19
A	5,757	39	5,214	33
BBB	1,619	11	1,748	11
BB or lower	174	1	153	1
Total	<u>\$14,853</u>	<u>100 %</u>	<u>\$15,899</u>	<u>100 %</u>

Mortgage Portfolio

The mortgage portfolio stabilized at \$7.5 billion in 2000 and consisted of 61% commercial loans and 39% single family residential loans, unchanged from a year ago.

Credit experience in the Company's mortgage portfolios continued to be favourable. Aggregate non-performing loans declined to \$14 million or 0.2% of the mortgage portfolio at the end of 2000, compared to \$61 million or 0.8% in 1999. Total allowances for credit losses decreased to \$27 million from \$54 million a year ago.

Liquidity

The Company uses a number of techniques to manage liquidity in the general funds. Products are designed to improve the predictability of their liability cash flows and to reduce the risk of disintermediation. Assets are acquired to provide cash flows that match the requirements of liabilities. A portion of assets is held in highly marketable securities that can be sold to meet cash flow requirements prior to maturity. Additional liquidity is available through estab-

lished lines of credit and the Company's demonstrated ability to access the capital markets for funds.

Liquid assets of over \$14 billion provide adequate levels of liquidity, particularly when used in combination with the other methods of liquidity management available to the Company.

Cashable Liability Characteristics

December 31 (in \$ millions)

	2000	1999
Surrenderable insurance and annuity liabilities		
At market value	\$ 3,104	\$ 3,763
At book value	<u>10,949</u>	<u>10,752</u>
Total	<u>\$ 14,053</u>	<u>\$ 14,515</u>

Segregated Funds

The Investment Division and the Company's subsidiaries – GWL Investment Management Ltd. (GWLIM), London Life Investment Management Ltd. (LLIM), and GWL Realty Advisors (GWLRA) – are the investment managers for the Company's segregated funds.

In supporting the importance the Company places on investment fund products, GWLIM, LLIM and GWLRA act as investment advisor to over 200 institutional and pension clients, and offer one of the broadest ranges of investment options in segregated, pooled and separate funds.

During 2000, the Company added 63 new segregated funds and assets under management grew by \$3 billion or 19%, to \$18.7 billion at year-end. In total, the Company offers 240 segregated funds as part of Individual and Group Retirement Services lines of business, including 142 funds totaling \$5.3 billion managed by 22 external managers as sub-advisors to GWLIM and LLIM.

Outlook – Investment

The Canadian economy enjoyed a year of strong growth in 2000. While growth in the United States slowed in the latter half of the year and into 2001, and is anticipated to slow in Canada as well in 2001, the Company does not believe that the economy is headed for a recession. Given its conservative

Liquid Assets

December 31 (in \$ millions)

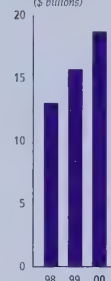
	2000		1999	
	Balance Sheet Value	Market Value	Balance Sheet Value	Market Value
Cash & certificates of deposit	\$ 293	\$ 293	\$ 265	\$ 265
Highly marketable securities				
Government bonds	5,503	5,625	7,451	7,186
Corporate bonds	6,400	6,357	4,980	4,730
Common/Preferred shares	783	844	361	439
Residential mortgages (insured)	1,431	1,422	1,511	1,480
Total	<u>\$ 14,410</u>	<u>\$ 14,541</u>	<u>\$ 14,568</u>	<u>\$ 14,100</u>

Segregated Funds Assets

December 31 (in \$ millions)

	2000	1999	1998	1997	1996
Stocks	\$ 11,238	\$ 9,025	\$ 6,914	\$ 6,180	\$ 2,788
Bonds	4,249	4,024	3,837	3,094	1,374
Mortgages	1,070	1,128	960	872	440
Real estate	1,383	1,119	877	415	226
Cash and other	742	434	371	402	71
Total	<u>\$ 18,682</u>	<u>\$ 15,730</u>	<u>\$ 12,959</u>	<u>\$ 10,963</u>	<u>\$ 4,899</u>
Internally-managed	13,383	12,397	10,754	9,397	4,359
Externally-managed	5,299	3,333	2,205	1,566	540
Year over year growth	19%	21%	18%	124%	—

Segregated Funds Assets
(\$ billions)



lending policies and rigorous underwriting practices, the Company does not anticipate significant change in credit loss experience in a more slowly growing economy in 2001.

The monetary authorities reduced interest rates in both Canada and the U.S. early in 2001; further easing in rates is expected during the first half of the year. While credit spreads

in the fixed-income markets were, on average, little changed in 2000 from the previous year, they widened towards the end of 2000 and into the new year on concerns of an economic slowdown. The Company expects spreads to ease during the year as forecasts on slowing growth, not recession, prove to be correct.

BUSINESS SEGMENTS

GROUP INSURANCE

Net income attributable to common shareholders increased dramatically in 2000, to \$66 million. The long-term disability business experienced improved morbidity results reflecting a combination of lower claims incidence and rate increases implemented in both 1999 and 2000. Expense gains also emerged in the health account as synergies from the integration of the London Life group business continued to enhance earnings growth. Productivity gains in administration and sales resulted in an 8% reduction in unit costs.

The gains in the health account were partially offset by deterioration of results in the life account. Mortality experience, both in terms of death claims and waiver claims, did not meet expectations.

After a year of relatively flat growth during the integration of the London Life group business in 1999, the Group operations resumed its historical growth trends with insurance premium income of \$2.974 billion in 2000. Overall

premium income, which includes claims from ASO clients, was up 7%. This growth rate was driven by buoyant sales and improved persistency (client retention).

Sales were up 20% over 2000 with significant gains recorded in the targeted small and mid-sized client market. The 29% growth rate in this target market reflects the Company's success in capitalizing on its strong distribution networks and leading marketplace position. Sales in the large case insured market were up sharply, but these results were offset by lower sales in the large case ASO market. Great-West continues to approach the large case market on a selective basis, which results in significant fluctuations in sales from year to year.

Persistency, while improving, remains below long-term expected levels. With service now at satisfactory levels and customer relationships solidified, the Company expects significant persistency improvement in the years ahead.

Group Insurance – Divisional Summary

Years ended December 31 (in \$ millions)

	Premiums and Deposits			Sales		
	2000	1999	% Change	2000	1999	% Change
Business/Product						
Small/mid-sized case	\$ 967	\$ 898	8 %	\$ 139	\$ 108	29 %
Large case – insured	905	844	7 %	52	24	117 %
– ASO	1,102	1,039	6 %	52	70	-26 %
Total	<u>\$ 2,974</u>	<u>\$ 2,781</u>	<u>7 %</u>	<u>\$ 243</u>	<u>\$ 202</u>	<u>20 %</u>

Group Insurance – Consolidated Net Income*Years ended December 31 (in \$ millions)*

	2000	1999
Income:		
Premium income	\$ 1,872	\$ 1,742
Net investment income	209	206
Fee and other income	51	49
Total income	2,132	1,997
Benefits and Expenses:		
Paid or credited to policyholders	1,630	1,550
Other	354	344
Net operating income before income taxes	148	103
Income taxes	59	43
Net income before minority shareholders' interests	89	60
Minority shareholders' interests of London Insurance Group		
Preferred shareholder dividends	—	—
Minority shareholders' interests	—	—
Net income before amortization of goodwill	89	60
Amortization of goodwill	23	23
Net income	\$ 66	\$ 37
Summary of Net Income		
Attributable to participating policyholders		
Net income before policyholder dividends	\$ —	\$ —
Policyholder dividends	—	—
Net income – participating policyholders	—	—
Attributable to shareholders		
Preferred shareholder dividends	—	—
Net income – common shareholders	66	37
Net income	\$ 66	\$ 37

Risk Analysis and Management – The basic risk related to group insurance focuses on the insurer's ability to predict claims experience for the coming year. Most risks facing the group insurance business are mitigated by the fact that most contract rate levels can be adjusted on a yearly basis.

In health care products, claims levels are driven by inflation and utilization. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs. The Company manages the impact of these and similar factors through plan designs that limit new costs and through pricing that takes demographic and other trend factors into account.

In disability products, aging and industry characteristics play a role in establishing future claims patterns. However, there is a growing number of disability claims related to stress and mental/nervous disorders, reflecting changes in

the economy and in societal attitudes toward these conditions. The incidence of these claims is more difficult to predict, they are more time-consuming to adjudicate and tend to be longer in duration than claims related to other disabilities. These risks are managed through pricing and plan designs that emphasize prevention, earlier intervention and return to work programs.

Outlook – Group Insurance

Demutualization and consolidation have resulted in price rationalization in the group marketplace. With Great-West's strategic position, in terms of low unit costs and extensive distribution capacity, the Company is well positioned for significant growth of group insurance premium and net operating income. In this new marketplace environment, the emergence of new technologies combined with the growth of the Internet, are creating new challenges and opportunities to expand our markets and enhance growth. The Group Division will be focused on capitalizing on these

opportunities by providing its plan sponsors, plan members and producers with direct and expanded access to its administration system in order to execute real-time transac-

tions. As well, the Internet will facilitate new opportunities to introduce new products, and supply information on specific topics and other financial products.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

Individual Insurance & Investment Products – Consolidated Net Income

Years ended December 31 (in \$ millions)

	2000			1999		
	Shareholders	Participating Policyholders	Total	Shareholders	Participating Policyholders	Total
Income:						
Premium income	\$ 574	\$ 1,302	\$ 1,876	\$ 667	\$ 1,281	\$ 1,948
Net investment income	513	936	1,449	597	915	1,512
Fee and other income	279	–	279	220	–	220
Total income	1,366	2,238	3,604	1,484	2,196	3,680
Benefits and Expenses:						
Paid or credited to policyholders	719	1,863	2,582	895	1,772	2,667
Other	395	260	655	372	273	645
Net operating income before income taxes	252	115	367	217	151	368
Income taxes	95	83	178	82	94	176
Net income before minority shareholders' interests	157	32	189	135	57	192
Minority shareholders' interests of London Insurance Group						
Preferred shareholder dividends	–	–	–	–	–	–
Minority shareholders' interest	–	9	9	–	(7)	(7)
	–	9	9	–	(7)	(7)
Net income before amortization of goodwill	157	23	180	135	64	199
Amortization of goodwill	28	–	28	28	1	29
Net income	\$ 129	\$ 23	\$ 152	\$ 107	\$ 63	\$ 170

Summary of Net Income

Attributable to participating policyholders

Net income before policyholder dividends	\$ –	\$ 559	\$ 559	\$ –	\$ 578	\$ 578
Policyholder dividends	–	536	536	–	515	515
Net income – participating policyholders	–	23	23	–	63	63

Attributable to shareholders

Preferred shareholder dividends	–	–	–	–	–	–
Net income – common shareholders	129	–	129	107	–	107
	129	–	129	107	–	107
Net income	\$ 129	\$ 23	\$ 152	\$ 107	\$ 63	\$ 170

Individual Insurance & Investment Products (IIIP) consists of three distinct business divisions: Individual Life Insurance, Individual Disability Insurance and Retirement & Investment Services (R&IS). Net income attributable to common shareholders increased 21% to \$129 million, with

increases in all IIIP divisions. Results were influenced by favourable mortality and morbidity experience and satisfactory expense levels. In the three years since the acquisition of London Life, the Company has realized the expense savings it anticipated. Integration is now largely complete, and

the Company anticipates that future expense improvements will be at a more modest level.

Individual Life Insurance

Individual life insurance sales, as measured by annualized premium, were \$96 million in 2000, while revenue premium exceeded \$1.5 billion.

Sales declined 9% overall in 2000 compared to 1999. Term insurance sales were down 19% in terms of new annualized premium over 1999, due to aggressive term pricing in the market. The Company will be enhancing its term insurance products in 2001 by reducing its rates with the assistance of reinsurance arrangements and improved mortality rates. Universal life sales increased 6% in 2000, and are focused in the under \$500,000 market.

In 1999, the Company rounded out its universal life product offering through an intercorporate agreement with a third-party to market a universal life product for the over \$500,000 market. Sales of this product more than doubled in 2000. The Company expanded its intercorporate offering of life insurance products in 2000 by adding an additional third-party universal life product. In addition, products available under the agreements were expanded to include term insurance and non-participating permanent products over \$500,000 in addition to universal life.

Sales of participating policies decreased 11%, but were strong in the mature market, where consumers are concerned with wealth management. The retrenchment of participating sales in Canada spurred by demutualization, has enhanced the Company's dominant market position to over 40% of participating sales in Canada.

The Company's sound management of its participating blocks of business has enabled it to deliver long-term policyholder dividend performance that is consistently among the best in the industry. Participating portfolio investment returns were lower due to market conditions causing pressure on earnings. However, favourable mortality, morbidity, and expense levels allowed the Company to maintain dividend scales for 2000. A regulated percentage of in-year distributable surplus in the participating account is credited to the shareholders' account. In 2000, the amount was \$14 million.

Risk Analysis and Management – The most significant risk in the life insurance line of business is mortality, which has an impact both on claims paid during the year and on the reserves that must be established to fund future claims. The Company manages this risk primarily through effective underwriting practices, developed to support the long-term sustainability of the business. The nature of life insurance contracts is such that the impact of underwriting policies tends to emerge 20 or 30 years after contracts are issued, when the majority of claims are incurred. Current mortality experience reflects the diligence of underwriting practices over past decades, as well as current practices.

A current risk in the industry involves the pricing of the level cost of insurance option within universal life products. The pricing of this option, guaranteed for the life of the policy, requires an interest rate and lapse assumption extending over long periods. A small adverse change in actual long-term lapses or investment returns can lead to significant insufficiency in the premiums. Management considers the current industry pricing of this option to be lower than required to produce adequate profitability, and has avoided significant exposure in this market.

Disability Insurance

Total sales in this line of business, which includes disability insurance and critical illness insurance, were constant in 2000, at \$20 million in new annualized premium. However, a general decline in the disability insurance market meant the Company was able to maintain its leading market share of over 20%.

The self-employed market continues to be the main source of sales, accounting for approximately 70% of sales. This trend is supported by ongoing consolidation in a number of industries, and this market is expected to continue to be an important source of sales.

Revenue premium increased 7%, indicating satisfactory persistency rates.

Risk Analysis and Management – The most significant risk for this line of business is morbidity which consists of the incidence and duration of claims for disability insurance and of the incidence of critical conditions for critical illness insurance. The Company manages this risk through its

Individual Insurance – Divisional Summary

Years ended December 31 (in \$ millions)

	Individual Life		Individual Disability	Total
	Participating	Non-Participating		
December 31, 2000				
Sales premium	\$ 57	\$ 39	\$ 20	\$ 116
Revenue premium income	1,302	262	109	1,673
December 31, 1999				
Sales premium	\$ 64	\$ 41	\$ 20	\$ 125
Revenue premium income	1,281	257	102	1,640

underwriting practices, experience and trend analysis, and its reserve and pricing reviews.

Disability experience is highly cyclical and changes with economic conditions. There is a growing number of disability claims related to stress and mental/nervous disorders, reflecting changes in the economy and in societal attitudes

toward these conditions. The incidence of these claims is more difficult to predict, they are more time-consuming to adjudicate and tend to be longer in duration than claims related to other disabilities. The Company's large block of business provides credible experience to analyze claims management and pricing.

RETIREMENT & INVESTMENT SERVICES

In 2000, the Company's Retirement & Investment Services business saw significant sales growth over 1999. The stock market correction in late 1998 combined with consumer concerns about Y2K depressed contributions to investment funds in Canada throughout 1999. However, sales rebounded quickly in 2000, leading to the Company's strongest year on record.

Total assets under administration increased 9% in total. The growth occurred in segregated funds, where total product assets increased by 19% offset by a decline in guaranteed product assets, where the current low interest rate environment continued to encourage consumers to invest in non-guaranteed products.

One benchmark for measuring growth is the mutual funds assets statistics published by the Investment Funds Institute of Canada (IFIC). The Company's segregated funds grew by 19%, in a year when total mutual fund assets in Canada increased by 8% based on IFIC statistics. The Company maintained its hold on the leading market share position for individual segregated funds.

In terms of sales, gross sales of individual savings plan were up 19% in 2000. Retention experience in individual segregated funds was stable, which can be attributed to an enhanced investment process used by investment representatives assisting clients with investment decisions. Net cash flow, another benchmark used by IFIC, measures growth in sales net of redemptions, and is an indication of clients' satisfaction with their investment. In 2000, net cash flow for segregated fund assets was 15% of beginning assets, compared to 6% for the Canadian mutual fund industry.

Two factors contributed to the growth in group savings plan sales in 2000. The introduction of the Company's new consolidated group *Envision your retirement* product, gave rise to a steady increase in sales activity throughout the year and significant enhancements were made to the online services offered to group plan members.

Group Investment Management sales results for 2000 increased significantly over 1999 to over \$1 billion, as a result of several large case sales.

Retirement & Investment Services – Divisional Summary ⁽¹⁾

Years ended December 31 (in \$ millions)

	Individual Savings Plans	Group Savings Plans	Group Investment Management	Payout Annuities	Total
December 31, 2000					
<i>Sales premium</i>					
Guaranteed	\$ 596	\$ 59	\$ 15	\$ 56	\$ 726
Segregated funds	2,295	202	1,007	–	3,504
<i>Revenue premium income</i>					
Guaranteed	92	63	–	48	203
Segregated funds	1,817	677	996	–	3,490
<i>Assets under administration</i>					
Guaranteed	1,267	1,148	67	2,898	5,380
Segregated funds	9,494	3,698	5,490	–	18,682
Total	<u>\$ 10,761</u>	<u>\$ 4,846</u>	<u>\$ 5,557</u>	<u>\$ 2,898</u>	<u>\$ 24,062</u>
December 31, 1999					
<i>Sales premium</i>					
Guaranteed	\$ 667	\$ 35	\$ 14	\$ 64	\$ 780
Segregated funds	1,758	81	269	–	2,108
<i>Revenue premium income</i>					
Guaranteed	117	148	–	43	308
Segregated funds	1,344	514	255	–	2,113
<i>Assets under administration</i>					
Guaranteed	1,863	1,328	67	2,991	6,249
Segregated funds	7,863	3,330	4,537	–	15,730
Total	<u>\$ 9,726</u>	<u>\$ 4,658</u>	<u>\$ 4,604</u>	<u>\$ 2,991</u>	<u>\$ 21,979</u>

(1) excludes Quadrus distributed mutual funds sales and assets.

Mutual Funds – For a number of years, London Life has been involved in the mutual funds market through London Financial Centre (LFC). In 2000, the Company rebranded LFC as Quadrus Investment Services, and established it as a mutual fund dealer for Freedom 55 Financial and Great-West investment representatives.

In 2000, sales of mutual funds through Quadrus increased 31%, while distributed assets increased 11%. By year end, Quadrus had more than 2,000 licensed investment representatives, and significant growth is expected to continue in this relatively new line of business.

The Company now offers more than 45 segregated funds to individual Freedom 55 Financial clients, 54 segregated funds to individual Great-West clients and 40 mutual funds for Quadrus clients. Clients can choose from up to eight different fund managers in most cases. Group sponsors can choose to offer their employees up to 100 investment choices.

Quadrus Investment Services

Years ended December 31 (in \$ millions)

	2000	1999
Mutual fund sales	\$ 117	\$ 89
Distributed mutual fund assets	803	722

Risk Analysis and Management – The Company's segregated fund business is fee-based, with revenue and profitability based on the market value of segregated funds assets under administration. Fluctuations in segregated funds asset levels will occur as a result of both changes in cash flow and general financial market conditions. Through the wide range of segregated funds offered by the Company, risk exposure to any particular market is limited. As well, the Company advocates a long-term asset allocation approach for its clients, which reduces the risk to the Company of cash flow changes due to market timing.

A risk facing the industry is the trend toward offering guarantees to clients against losses on segregated funds investments. The Company worked actively within the industry to establish sound reserving and capital standards, and effective regulation for these guarantee products. New capital requirements were introduced by OSFI commencing year-

end 2000 based on a risk adjusted set of factors proposed by a Task Force of the Canadian Institute of Actuaries. This development has created significant changes in product design across the industry with a trend towards more conservative guarantees. This change in industry posture has served to increase the competitiveness of the Company's products, as well as lower the overall risk levels for the industry in the future. The vast majority of the Company's guarantees are at the level of 75% of policyholder deposits less withdrawals at maturity, rather than the more aggressive level of 100%. An additional premium is required to obtain a 100% guarantee through an enhanced guarantee rider with respect to the individual Great-West fund product.

Outlook – IIIP

As the aging Canadian population changes its focus to retirement and estate preservation from mortgage debt repayment, a continued strong demand is anticipated for the type of financial security advice and products delivered through our distribution systems.

Two markets, in particular, are the focus of initiatives continuing in 2001. The Company will increase its penetration of the high-net-worth market with several new investment products and financial security planning tools. In addition, research reveals significant untapped potential within the London Life client base. In 2001, the Company intends to increase sales of insurance and investment products to this large market.

Consolidation in the Canadian insurance marketplace will continue to open up opportunities for distribution alliances. An enhanced revenue stream is anticipated from the distribution of new third-party products, and from agreements negotiated with other financial institutions in 2000 to distribute the Company's disability insurance and small group insurance products. These distribution arrangements require little or no capital investment on the part of the Company, and generate significant net income.

Tight control of expenses will continue to be a priority, with automation of order and issue processes and consolidation of computer systems increasing efficiency and contributing to lower expenses in 2001.

REINSURANCE & SPECIALTY GENERAL INSURANCE

The Company conducts its reinsurance and specialty general insurance business primarily through London Reinsurance Group and London Guarantee, which participate in life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche markets.

Net income of \$34 million is down \$32 million in total from 1999 levels. This was primarily the result of reduced earnings from London Reinsurance Group and London Life

International, partially offset by increased income generated by London Guarantee in 2000.

Net Income Analysis

Years ended December 31 (in \$ millions)

	2000	1999
London Reinsurance Group	\$ 45	\$ 58
London Guarantee	10	8
London Life International	(22)	(1)
Other	1	1
Total	\$ 34	\$ 66

London Reinsurance Group (LRG)

Great-West has identified reinsurance as a core business. The Company's reinsurance business is conducted through London Reinsurance Group (LRG). LRG is a leading global provider of specialty finite reinsurance and holds a strategic position in a number of niche retrocession and reinsurance markets. LRG is a composite reinsurer, reinsuring life, property and casualty, accident and health and annuity business primarily in the United States and Europe, through operating companies in the United States, Barbados and Ireland. LRG is a market leader in the U.S. property and casualty finite retrocession market and holds a strong market share in the U.S. life financial reinsurance market.

Net operating income after income taxes for 2000 was down 22% from 1999. LRG's core reinsurance product lines in the life, annuity and property and casualty businesses performed well.

The major underperforming lines were the accident and health reinsurance and syndicated property and casualty markets. The results of the property catastrophe line were

affected by a loss of \$12 million due to two large European windstorms which occurred at the end of 1999. However, the majority of this loss was offset by reserves established for such an event. The Company terminated its participation in the London, England accident and health markets and the syndicated property and casualty markets in 1999. LRG is actively managing the runoff of this existing business. The results for those lines include the establishment of provisions to provide for potential exposure during the runoff period.

Premium income increased in 2000 primarily due to the nature of underlying life and property and casualty reinsurance contracts written in 2000. A greater number of structured reserve transfer deals were written in 2000 than in 1999.

Risk Analysis and Management – LRG continues to manage its own risk through the diversification of its business by client, geographic area and type of risk insured. LRG's base of lower risk financial reinsurance business, together with a conservative approach to underwriting, investment and

Reinsurance & Specialty General Insurance – Consolidated Net Income

Years ended December 31 (in \$ millions)

	2000	1999
Income:		
Premium income	\$ 2,878	\$ 2,075
Net investment income	412	379
Fee and other income	2	2
Total income	3,292	2,456
Benefits and Expenses:		
Paid or credited to policyholders	3,205	2,309
Other	61	50
Net operating income before income taxes	26	97
Income taxes	(10)	13
Net income before minority shareholders' interests	36	84
Minority shareholders' interests of London Insurance Group		
Preferred shareholder dividends	—	—
Minority shareholders' interests	(6)	10
	(6)	10
Net income before amortization of goodwill	42	74
Amortization of goodwill	8	8
Net income	\$ 34	\$ 66

Summary of Net Income

Attributable to participating policyholders

Net income before policyholder dividends	\$ —	\$ —
Policyholder dividends	—	—
Net income – participating policyholders	—	—

Attributable to shareholders

Preferred shareholder dividends	—	—
Net income – common shareholders	34	66
	34	66

Net income

\$ 34	\$ 66
--------------	--------------

London Reinsurance Group – Divisional Summary

Years ended December 31 (in \$ millions)

	2000		1999	
	Premium Income	Assets	Premium Income	Assets
Line of Business				
Life and property and casualty	\$ 2,507	\$ 4,628	\$ 1,623	\$ 3,721
Annuity	217	997	312	1,077
Accident and health	86	81	88	130
Capital and surplus	–	758	–	698
	<u>\$ 2,810</u>	<u>\$ 6,464</u>	<u>\$ 2,023</u>	<u>\$ 5,626</u>
Geographic				
Barbados	\$ 2,551	\$ 5,107	\$ 1,789	\$ 4,835
Other	259	1,357	234	791
	<u>\$ 2,810</u>	<u>\$ 6,464</u>	<u>\$ 2,023</u>	<u>\$ 5,626</u>

financial management allows LRG to react to a constantly changing business environment.

LRG's capacity to write financial reinsurance business is determined primarily by its ability to issue letters of credit to clients and maintain a strong liquidity position. During 2000, LRG successfully arranged a U.S. \$1.425 billion syndicated letter of credit facility.

The consolidation of the reinsurance industry is a significant trend affecting how reinsurance business is conducted. LRG's response to this industry consolidation has been to broaden its life and non-life reinsurance product offerings and strengthen its relationships with core clients.

Outlook – LRG

In the coming year, LRG sees opportunities for expansion in financial reinsurance in its property and casualty, life and annuity businesses. The United States financial life business has been a growth area for the last two years and that trend is expected to continue. LRG is in a unique position to take advantage of this market because its subsidiaries in Dublin and Barbados are dual-licensed, meaning they can write both property and casualty and life reinsurance contracts.

LRG looks forward to ongoing expansion in its core businesses, complemented by growth from acquisitions and the development of new product lines. LRG expects to see improvement in core business lines of property and casualty and life reinsurance. Accident and health business is expected to improve as losses should be lower given this line has been in run-off for two years.

LRG will continue to develop strong business relationships in the reinsurance and insurance industry on a global basis and underwrite both life and non-life reinsurance contracts using a conservative and disciplined approach to underwriting.

London Guarantee

Within its core businesses, London Guarantee differentiates itself from the competition through the quality of its under-

writing and by maintaining strong relationships with its key brokers. This has permitted the Company to achieve levels of growth and underwriting profitability that compare very favourably with the property and casualty industry in general.

Total premium income increased to \$68 million in 2000 from \$52 million in 1999. Premiums from the Company's surety lines grew by more than 24%, reflecting its dominant position in central Canada and its recent expansion into the north-eastern United States. The Company's commitment to remain focused on underwriting quality and key broker relationships will ensure its continued success and status as the largest surety underwriter in Canada.

Despite the increasingly competitive Canadian market for corporate risk products, London Guarantee's premium income from these lines grew by more than 23% in 2000, with solid performance across Canada. The Company expects this strong rate of growth to continue into 2001.

Risk Analysis and Management – London Guarantee insures a broad range of risks within each of its product lines. Its major markets are diverse and stretch across Canada and into the north-eastern United States.

The growth and profitability cycles of the Company's individual lines have historically complemented each other. Combined with the significant weight the Company places on the quality of both its underwriting and the brokers it deals with, the overall result has been a consistently above-average rate of growth and level of underwriting profit.

In order to protect its capital and its underwriting results, London Guarantee has entered into risk-sharing arrangements with well-established North American and European reinsurance companies. These arrangements limit the Company's exposure to large individual losses and the aggregated impact of a series of large losses.

London Life International (LLIC)

During 2000, the Company's exposure to the Asian market was significantly reduced. LLIC's holding in China Investment Development Co. Ltd. has been sold effective December 30, 2000 and a modest gain on sale recorded in 2000.

The Company's remaining Asian market position is represented by its investment in Shin Fu Life Insurance Co. Ltd. in Taiwan. The Company has withdrawn from active

involvement in managing Shin Fu and has explored available disposition alternatives, including its put option under the joint venture agreement. The Company has fully provided for any potential impact of this action on its financial position.

These steps have resulted in a net charge to shareholders' earnings for the year ended December 31, 2000 of \$22 million (after tax).

CORPORATE

The Corporate segment is mainly used to record the business activities and operations that are not associated with the major business units of Canadian operations. The Corporate segment includes investment and fee income, expenses and charges related to capital and other assets not associated with major business units, as well as the reconciliation of total income taxes reported for the shareholder

account and the internal allocation of income taxes to the major units.

Net income for the Corporate segment of Canadian shareholder operations in 2000 was \$70 million, compared to \$50 million for 1999. Most of the change relates to increased investment income on capital related assets and a favourable change in provision for income taxes.

Corporate – Consolidated Net Income

Years ended December 31 (in \$ millions)

	2000	1999
Income:		
Premium income	\$ –	\$ –
Net investment income	116	95
Fee and other income	14	7
Total income	130	102
Benefits and Expenses:		
Paid or credited to policyholders	6	21
Other	9	10
Net operating income before income taxes	115	71
Income taxes	23	2
Net income before minority shareholders' interests	92	69
Minority shareholders' interest of London Insurance Group		
Preferred shareholder dividends	21	18
Minority shareholders' interests	–	1
	21	19
Net income before amortization of goodwill	71	50
Amortization of goodwill	1	–
Net income	\$ 70	\$ 50

Summary of Net Income

Attributable to participating policyholders

Net income before policyholder dividends	\$ –	\$ –
Policyholder dividends	–	–
Net income – participating policyholders	–	–

Attributable to shareholders

Preferred shareholder dividends	31	33
Net income – common shareholders	39	17
	70	50

Net income

\$ 70 **\$ 50**

UNITED STATES OPERATIONS

The United States segment of Great-West's operations includes the financial results for GWL&A for the full year as the corporate reorganization described in note 2 to the financial statements was effective December 31, 2000.

Table 1 presents the aggregate results for the United States operations of Great-West in 2000 compared to 1999. Table 2 presents the same information for continuing United States operations (excluding GWL&A) on a pro forma basis, compared to 1999 on that same pro forma basis.

TABLE 1
FINANCIAL INFORMATION – UNITED STATES OPERATIONS

Consolidated Operations

Years ended December 31 (in \$ millions)

	2000			1999			% Change
	Shareholders	Participating Policyholders	Total	Shareholders	Participating Policyholders	Total	
Income:							
Premium income ⁽¹⁾	\$ 2,944	\$ 406	\$ 3,350	\$ 2,360	\$ 401	\$ 2,761	21 %
Net investment income	976	488	1,464	957	429	1,386	6 %
Fee and other income	1,295	–	1,295	945	(1)	944	37 %
Total income	5,215	894	6,109	4,262	829	5,091	20 %
Benefits and Expenses:							
Paid or credited to policyholders	3,098	853	3,951	2,601	788	3,389	17 %
Other	1,530	28	1,558	1,194	27	1,221	28 %
Net operating income before income taxes	587	13	600	467	14	481	25 %
Income taxes	191	9	200	138	(6)	132	52 %
Net income before amortization of goodwill	306	4	400	329	20	349	15 %
Amortization of goodwill	4	–	4	1	–	1	–
Net income	\$ 392	\$ 4	\$ 396	\$ 328	\$ 20	\$ 348	14 %
Summary of Net Income							
Attributable to participating policyholders							
Net income before policyholder dividends	\$ –	\$ 185	\$ 185	\$ –	\$ 169	\$ 169	9 %
Policyholder dividends	–	181	181	–	149	149	21 %
Net income – participating policyholders	–	4	4	–	20	20	-80 %
Attributable to shareholders							
Preferred shareholder dividends	6	–	6	6	–	6	–
Net income – common shareholders	386	–	386	322	–	322	20 %
	392	–	392	328	–	328	20 %
Net income	\$ 392	\$ 4	\$ 396	\$ 328	\$ 20	\$ 348	14 %
(1) excludes – segregated funds deposits	\$ 4,611	\$ –	\$ 4,611	\$ 3,837	\$ –	\$ 3,837	20 %
– self-funded premium equivalents (ASO)	\$ 7,695	\$ –	\$ 7,695	\$ 4,425	\$ –	\$ 4,425	74 %

Reference is made to note 15 of the Great-West financial statements, Segmented information, for the presentation of United States Operations.

The continuing United States operations are limited to a small block of individual insurance and health policies, together with the United States divisions of Canadian

group insurance policyholders. The amount of premiums, claims, assets and liabilities are quite modest and are presented in this report for information.

TABLE 2**PRO FORMA FINANCIAL INFORMATION – UNITED STATES OPERATIONS EXCLUDING GWL&A****Consolidated Operations**

Years ended December 31 (in \$ millions)

	2000			1999			% Change
	Shareholders	Participating Policyholders	Total	Shareholders	Participating Policyholders	Total	
Income:							
Premium income	\$ 14	\$ –	\$ 14	\$ 20	\$ –	\$ 20	-30 %
Net investment income	24	–	24	47	–	47	-49 %
Fee and other income	1	–	1	–	–	–	–
Total income	39	–	39	67	–	67	-42 %
Benefits and Expenses:							
Paid or credited to policyholders	23	–	23	54	–	54	-57 %
Other	4	–	4	3	–	3	33 %
Net operating income before income taxes	12	–	12	10	–	10	20 %
Income taxes	3	–	3	3	–	3	–
Net income before amortization of goodwill	9	–	9	7	–	7	29 %
Amortization of goodwill	–	–	–	–	–	–	–
Net income	\$ 9	\$ –	\$ 9	\$ 7	\$ –	\$ 7	29 %
Summary of Net Income							
Attributable to participating policyholders							
Net income before policyholder dividends	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	–
Policyholder dividends	–	–	–	–	–	–	–
Net income – participating policyholders	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	–
Attributable to shareholders							
Preferred shareholder dividends	\$ 6	\$ –	\$ 6	\$ 6	\$ –	\$ 6	–
Net income – common shareholders	3	–	3	1	–	1	–
	\$ 9	\$ –	\$ 9	\$ 7	\$ –	\$ 7	29 %
Net income	\$ 9	\$ –	\$ 9	\$ 7	\$ –	\$ 7	29 %

The continuing United States operations of Great-West contributed \$9 million in 2000 to net income, compared to \$7 million in 1999.

For a description and analysis of the United States operations of Great-West including GWL&A, readers are referred

to the MD&A of the parent company, Great-West Lifeco Inc., the consolidated financial statements of which are not affected by the corporate reorganization described in note 2 of the Great-West financial statements.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles including the requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The financial statements necessarily include amounts that are based on management's best estimate due to dependency on subsequent events. These estimates are based on careful judgements and have been properly reflected in the financial statements. In the opinion of management the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that the financial information produced is relevant and reliable.

The consolidated financial statements were approved by the Board of Directors which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company. The function of the Audit Committee is to:

- Review the quarterly and annual financial statements and recommend them for approval to the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other audit, accounting, financial and security matters as required.

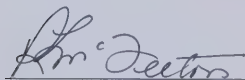
In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have

been properly discharged. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to Section 165(2)(i) of the *Insurance Companies Act* (Canada), appoints the Actuary who is:

- Responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- Required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion, which is presented following the financial statements.
- Required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the company until December 31, 2004, under adverse economic and business conditions.

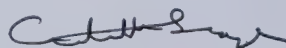
Deloitte & Touche LLP Chartered Accountants, as the Company's appointed external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders, Shareholders and Directors is presented following the financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements are free of material misstatement and present fairly the financial position of the Company in accordance with Canadian generally accepted accounting principles, including the requirements of the Office of the Superintendent of Financial Institutions Canada.



Raymond L. McFeeters
President and Chief Executive Officer



William W. Lovatt
Executive Vice-President
Chief Financial Officer, Canada



Mitchell T.G. Graye
Executive Vice-President
Chief Financial Officer, United States

SUMMARY OF CONSOLIDATED OPERATIONS

For the years ended December 31

(in millions of dollars except earnings per common share)

	2000	1999
Income		
Premium income	\$ 9,976	\$ 8,526
Net investment income	3,650	3,578
Fee and other income	1,641	1,222
	<u>15,267</u>	<u>13,326</u>
Benefits and Expenses		
Policyholder benefits	9,719	9,222
Increase in actuarial liabilities	603	(5)
Policyholder dividends and experience refunds	1,052	719
Total paid or credited to policyholders	<u>11,374</u>	<u>9,936</u>
Commissions	694	601
Operating expenses	1,814	1,546
Premium taxes	129	123
	<u>1,256</u>	<u>1,120</u>
Net operating income before income taxes	<u>1,256</u>	<u>1,120</u>
Income taxes – current	540	378
– future	(90)	(12)
	<u>806</u>	<u>754</u>
Net income before minority shareholders' interests	<u>806</u>	<u>754</u>
Minority shareholders' interests of London Insurance Group		
Preferred shareholder dividends	21	18
Minority shareholders' interests	3	4
	<u>24</u>	<u>22</u>
Net income before amortization of goodwill	<u>782</u>	<u>732</u>
Amortization of goodwill	64	61
Net income	<u>\$ 718</u>	<u>\$ 671</u>
Earnings per common share	<u>\$ 274.95</u>	<u>\$ 231.28</u>

SUMMARY OF NET INCOME

Attributable to participating policyholders		
Net income before policyholder dividends	\$ 744	\$ 747
Policyholder dividends	717	664
Net income – participating policyholders	<u>27</u>	<u>83</u>
Attributable to shareholders		
Preferred shareholder dividends	37	39
Net income – common shareholders	654	549
	<u>691</u>	<u>588</u>
Net income	<u>\$ 718</u>	<u>\$ 671</u>

CONSOLIDATED BALANCE SHEET

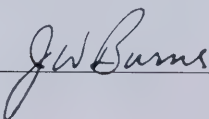
December 31

(in millions of dollars)

	2000 (note 2)	1999
ASSETS		
Bonds (note 3)	\$ 15,776	\$ 30,397
Mortgage loans (note 3)	7,522	8,942
Stocks (note 3)	1,021	809
Real estate (note 3)	1,042	1,106
Loans to policyholders	1,368	5,162
Cash and certificates of deposit	352	734
Funds withheld by ceding insurers	3,555	2,426
Premiums in course of collection	381	425
Interest due and accrued	347	552
Future income taxes (note 11)	3	158
Goodwill	1,575	1,665
Other assets	366	1,093
General funds assets	\$ 33,308	\$ 53,469
Segregated funds assets	\$ 18,682	\$ 33,728

Approved by the Board:

Director



Director



LIABILITIES

	2000 (note 2)	1999
Policy liabilities		
Actuarial liabilities (note 5)	\$ 23,816	\$ 40,036
Provision for claims	346	735
Provision for policyholders' dividends	284	328
Provision for experience rating refunds	558	421
Policyholders' funds	1,493	1,913
	<u>26,497</u>	<u>43,433</u>
Commercial paper and other loans (note 6)	523	753
Current income taxes	418	317
Other liabilities	952	1,847
Repurchase agreements	—	116
Net deferred gains on portfolio investments sold (note 3)	1,010	1,189
	<u>29,400</u>	<u>47,655</u>
Minority shareholders' interests (note 7)	460	467
Policyholders' and Shareholders' Equity		
Participating policyholders' surplus	1,225	1,394
Capital stock (note 8)	1,161	1,659
Shareholders' surplus	1,057	2,131
Provision for unrealized gain on translation of net investment in foreign operations		
Participating policyholders	—	18
Shareholders	5	145
	<u>3,448</u>	<u>5,347</u>
General funds liabilities, policyholders' and shareholders' equity	<u>\$ 33,308</u>	<u>\$ 53,469</u>
Segregated funds	<u>\$ 18,682</u>	<u>\$ 33,728</u>

CONSOLIDATED STATEMENT OF SURPLUS

For the years ended December 31

(in millions of dollars)

	2000	1999
PARTICIPATING POLICYHOLDERS		
Balance, beginning of year		
As previously reported	\$ 1,394	\$ 1,311
Change in accounting policy (note 9)	(3)	—
As restated	1,391	1,311
Net income	27	83
Corporate reorganization (note 2)	(193)	—
Balance, end of year	<u>\$ 1,225</u>	<u>\$ 1,394</u>
SHAREHOLDERS		
Balance, beginning of year		
As previously reported	\$ 2,131	\$ 1,824
Change in accounting policy (note 9)	(44)	—
As restated	2,087	1,824
Net income	691	588
Share consolidation (note 8)	—	(19)
Share issue expenses	—	(4)
Corporate reorganization (note 2)	(1,276)	—
Dividends to shareholders		
Preferred shareholders	(37)	(39)
Common shareholders	(408)	(219)
Balance, end of year	<u>\$ 1,057</u>	<u>\$ 2,131</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

(in millions of dollars)

	2000	1999
Operations		
Net income	\$ 718	\$ 671
Adjustments for non-cash items:		
Change in policy liabilities	969	(192)
Change in funds withheld by ceding insurers	(1,129)	(252)
Change in current income taxes payable	115	168
Future income tax expense	(90)	(12)
Amortization of goodwill	64	61
Other	(551)	(440)
Cash flows from operations	96	4
Financing Activities		
Issue of debenture in subsidiary	200	—
Repayment of senior debentures in subsidiary	(100)	—
Issue of preferred shares in subsidiary	—	200
Redemption of preferred shares	—	(125)
Issue of subordinated capital income securities	—	252
Advance (repayment) of loan from parent	—	(103)
Issue (repayment) of commercial paper and other loans	68	(163)
Share issue expenses	—	(4)
Share consolidation	—	(19)
Dividends paid	(445)	(258)
	(277)	(220)
Investment Activities		
Bond sales and maturities	16,240	18,595
Mortgage loan repayments	1,734	2,252
Stock sales	528	147
Real estate sales	28	30
Change in loans to policyholders	(267)	201
Change in repurchase agreements	(119)	(243)
Corporate reorganization	(328)	—
Investment in subsidiaries	—	(13)
Investment in bonds	(15,545)	(19,282)
Investment in mortgage loans	(1,550)	(1,312)
Investment in stocks	(805)	(92)
Investment in real estate	(117)	(77)
	(201)	206
Decrease in cash and certificates of deposit	(382)	(10)
Cash and certificates of deposit, beginning of year	734	744
Cash and certificates of deposit, end of year	\$ 352	\$ 734

SEGREGATED FUNDS CONSOLIDATED ASSETS

December 31

(in millions of dollars)

	2000	1999
Bonds	\$ 4,249	\$ 8,315
Mortgage loans	1,070	1,128
Stocks	11,238	23,156
Real estate	1,383	1,119
Cash and certificates of deposit	1,001	199
Income due and accrued	75	98
Other liabilities	(334)	(287)
	<u>\$ 18,682</u>	<u>\$ 33,728</u>

SEGREGATED FUNDS CONSOLIDATED STATEMENT OF CHANGES IN ASSETS

For the years ended December 31

(in millions of dollars)

	2000	1999
Segregated funds assets – January 1	\$ 33,728	\$ 28,394
Additions (deductions):		
Policyholders' deposits	8,101	5,950
Net investment income	1,939	1,328
Net realized capital gains on investments	2,661	1,891
Net unrealized capital gains (losses) on investments	(5,115)	1,703
Unrealized gains (losses) due to change in current exchange rates	723	(1,005)
Other	–	1
Policyholders' withdrawals	(5,266)	(4,994)
Net transfer from General Fund	388	460
Corporate reorganization	(18,477)	–
	<u>\$ (15,046)</u>	<u>\$ 5,334</u>
Segregated funds assets – December 31	\$ 18,682	\$ 33,728

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ amounts in millions of dollars unless otherwise noted)

1. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada and include the accounts of its subsidiary companies. The principal subsidiaries for the majority of the year (see note 2) are:

- London Insurance Group (LIG)
- Great-West Life & Annuity Insurance Company (GWL&A)
- GWL Properties Inc.
- GWL Investment Management Ltd. (GWLIM)
- GWL Realty Advisors Inc.

The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of \$29 million (\$13 million in 1999). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 15% per annum on a declining-balance basis. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market are determined by management.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$60 million (\$39 million in 1999). The carrying value is adjusted towards market value at a rate of 10% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 10% per annum on a declining-balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset and liability positions including revenues within guidelines which prohibit their use for speculative trading purposes.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

(c) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. United States assets and liabilities have been translated into Canadian dollars at the December 31, 2000 market rate of \$1.5000 (\$1.4433 in 1999) and all United States income and expense items have been translated at an average rate of \$1.4853 (\$1.4856 in 1999). The provision for unrealized gain of \$5 million (\$163 million in 1999) on foreign currency translation of the Company's net investment in its foreign operations is recorded separately on the Consolidated Balance Sheet.

The Company has entered into certain daily average rate forward exchange contracts to manage volatility associated with the translation of its United States operations into Canadian dollars. Net realized foreign exchange gains and losses are included in investment income.

1. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES *(cont'd)*

(d) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance, are fully secured by the cash surrender values of the policies and have effective interest rates ranging from 5% to 9% (1999 - 5% to 8%).

(e) Funds Withheld by Ceding Insurers

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer representing the premium due. Investment revenue on these funds withheld is credited to the Company by the ceding insurer.

(f) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries. Goodwill is amortized on a straight-line basis over its useful life but not exceeding periods of 30 years. The Company evaluates the carrying amount of goodwill by reviewing returns and projections of future cash flows of the related businesses. Goodwill is written down when impaired and the amortization periods are revised if it is estimated that the remaining period of benefit has changed.

(g) Income Taxes

Income taxes are accounted for in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantially enacted at the balance sheet date.

(h) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(i) Shareholders' Portion of Participating Earnings

Shareholders' portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account, \$25 million in 2000 (\$22 million in 1999). The actual payment of the shareholders' portion of participating earnings is legally determined as a percentage of policyholder dividends paid. \$32 million of shareholders' surplus (\$32 million in 1999) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

(j) Pension Plans and Other Post Retirement Benefits

The Company maintains contributory and non-contributory defined benefit pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings. The cost of the defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of pension benefits is charged to earnings. Adjustments arising from plan amendments or experience gains or losses are amortized over the expected average remaining service life of the employee/agent group. Experience gains and losses are calculated on assets of the plans valued using an adjusted market value method under which realized and unrealized capital gains and losses are spread on a straight-line basis over three years. Plan assets are carried at market values and are held in separate trustee pension funds.

The Company also provides post retirement health and life insurance benefits to eligible employees, agents and their dependents. In prior years the cost of providing these benefits was charged to earnings as incurred. During 2000, the Company adopted the recommendations of the CICA Handbook Section 3461 Employee Future Benefits which resulted in the recognition on an accrual basis of the cost of all post retirement benefits other than pensions over the periods of employee service. The cost of the defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of post retirement health and life insurance benefits is charged to earnings.

(k) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted daily average number of common shares outstanding of 2,378,666 (2,372,646 in 1999).

(l) Geographic Segmentation

The Company's operations are reported as Canadian and United States segments. Operations in other countries are reported with the Canadian segment.

(m) Comparative Figures

Certain of the 1999 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. CORPORATE REORGANIZATION

On December 31, 2000, the Company's indirect 100% ownership in its United States operating subsidiary Great-West Life & Annuity Insurance Company (GWL&A) was transferred to a newly formed subsidiary of its parent, Great-West Lifeco Inc. As a result of this corporate reorganization, GWL&A is no longer owned by Great-West, or a subsidiary of Great-West. The transfer of assets, liabilities, and surplus was recorded at book value. The details of the transfer are as follows:

	Total Prior to Transfer	Dec 31, 2000 Transferred Values	Dec 31, 2000 Continuing Operations
Assets			
Bonds	\$ 30,363	\$ 14,587	\$ 15,776
Mortgage loans	8,787	1,265	7,522
Stocks	1,133	112	1,021
Real estate	1,202	160	1,042
Loans to policyholders	5,583	4,215	1,368
Cash and certificates of deposit	680	328	352
Funds withheld by ceding insurers	3,555	—	3,555
Premiums in course of collection	606	225	381
Interest due and accrued	556	209	347
Future income taxes	274	271	3
Goodwill	1,653	78	1,575
Other assets	1,300	934	366
General funds assets	<u>\$ 55,692</u>	<u>\$ 22,384</u>	<u>\$ 33,308</u>
Segregated funds assets	<u>\$ 37,159</u>	<u>\$ 18,477</u>	<u>\$ 18,682</u>
Liabilities			
Policy liabilities	\$ 45,101	\$ 18,604	\$ 26,497
Commercial paper and other loans	932	409	523
Current income taxes	432	14	418
Other liabilities	2,019	1,067	952
Net deferred gains on portfolio investments sold	1,085	75	1,010
	<u>49,569</u>	<u>20,169</u>	<u>29,400</u>
Minority shareholders' interests	460	—	460
Surplus			
Participating policyholders' surplus	1,418	193	1,225
Capital stock and shareholders' surplus	3,991	1,773	2,218
Provision for unrealized gain on translation of net investment in foreign operations			
Participating policyholders	26	26	—
Shareholders	228	223	5
	<u>5,663</u>	<u>2,215</u>	<u>3,448</u>
General funds liabilities, policyholders' and shareholders' equity	<u>\$ 55,692</u>	<u>\$ 22,384</u>	<u>\$ 33,308</u>
Segregated funds	<u>\$ 37,159</u>	<u>\$ 18,477</u>	<u>\$ 18,682</u>

The reorganization resulted in the Company's common share capital being reduced by 1,209,292 common shares at a stated value of \$497 million, shareholders' surplus being reduced by \$1,276 million, and shareholders' provision for unrealized gain on translation of net investment in foreign operations being reduced by \$223 million.

2. CORPORATE REORGANIZATION *(cont'd)*

In addition, as a result of the reorganization:

- (i) the participating policyholders' surplus and the portion of the provision for unrealized gain on translation of net investment in foreign operations attributable to participating policyholders of GWL&A, in the amounts of \$193 million and \$26 million, respectively, are no longer included in the consolidated presentation of Great-West.
- (ii) the segregated funds assets and liabilities of GWL&A in the amounts of \$18.5 billion, are no longer included in the presentation of the segregated funds assets and liabilities of Great-West.

The Company's consolidated operations for the year ended December 31, 2000 includes the operations of GWL&A for the full year as follows:

	Great-West Continuing Operations	GWL&A Prior to Reorganization	Great-West Consolidated Total
Net income			
– attributable to participating policyholders	\$ 23	\$ 4	\$ 27
– attributable to preferred shareholders	37	–	37
– attributable to common shareholders	271	383	654
Net income	<u>\$ 331</u>	<u>\$ 387</u>	<u>\$ 718</u>

As part of the reorganization, Great-West Lifeco provided certain commitments with respect to, among other things, maintaining regulatory capital levels of its two major subsidiaries, Great-West and GWL&A.

After the reorganization, the Company's U.S. Branch operations consist of a closed block of individual life and disability business as well as group life and health business that represents the U.S. employees of Canadian group policies.

3. PORTFOLIO INVESTMENTS

- (a) Carrying values and estimated market values of portfolio investments are as follows:

		2000			
		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	\$ 5,741	\$ 9	\$ 5,750	\$ 5,861
	– corporate	9,804	222	10,026	10,005
		15,545	231	15,776	15,866
Mortgage loans	– residential single family	2,928	–	2,928	2,907
	– residential apartments	1,929	–	1,929	2,030
	– retail and shopping centres	1,009	–	1,009	1,095
	– office buildings	818	–	818	883
	– industrial	722	–	722	756
	– other	116	–	116	156
		7,522	–	7,522	7,827
Stocks	– public	788	–	788	891
	– private	232	1	233	230
		1,020	1	1,021	1,121
Real estate		1,040	2	1,042	1,238
		\$ 25,127	\$ 234	\$ 25,361	\$ 26,052

		1999			
		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	\$ 7,624	\$ 2,870	\$ 10,494	\$ 10,138
	– corporate	8,976	10,927	19,903	19,455
		16,600	13,797	30,397	29,593
Mortgage loans	– residential single family	2,971	–	2,971	2,909
	– residential apartments	1,679	227	1,906	1,942
	– retail and shopping centres	1,096	453	1,549	1,596
	– office buildings	883	424	1,307	1,331
	– industrial	806	129	935	952
	– other	100	174	274	329
		7,535	1,407	8,942	9,059
Stocks	– public	361	44	405	492
	– private	379	25	404	396
		740	69	809	888
Real estate		947	159	1,106	1,271
		\$ 25,822	\$ 15,432	\$ 41,254	\$ 40,811

- (b) The significant terms and conditions and interest rate ranges of applicable fixed-term portfolio investments gross of provisions are as follows:

		2000					
		Carrying Value					
		Term to Maturity					Effective Interest Rate Ranges
		1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	
Short term bonds		\$ 707	\$ —	\$ —	\$ 707	\$ 704	5.6%-6.8%
	Bonds	813	4,975	9,297	15,085	17,200	3.0%-14.5%
	Mortgage loans	1,715	3,017	2,817	7,549	7,573	4.0%-14.5%
		<u>\$ 3,235</u>	<u>\$ 7,992</u>	<u>\$ 12,114</u>	<u>\$ 23,341</u>	<u>\$ 25,477</u>	
Geographic							
Canada		\$ 3,218	\$ 7,956	\$ 11,936	\$ 23,110	\$ 25,246	3.0%-14.5%
United States		17	36	178	231	231	5.4%-11.9%
		<u>\$ 3,235</u>	<u>\$ 7,992</u>	<u>\$ 12,114</u>	<u>\$ 23,341</u>	<u>\$ 25,477</u>	
		1999					
		Carrying Value					
		Term to Maturity					Effective Interest Rate Ranges
		1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	
Short term bonds		\$ 1,026	\$ —	\$ —	\$ 1,026	\$ 1,026	3.6%-6.5%
	Bonds	1,856	8,579	18,958	29,393	31,437	2.7%-15.0%
	Mortgage loans	1,747	4,368	2,983	9,098	9,104	4.0%-13.8%
		<u>\$ 4,629</u>	<u>\$ 12,947</u>	<u>\$ 21,941</u>	<u>\$ 39,517</u>	<u>\$ 41,567</u>	
Geographic							
Canada		\$ 3,154	\$ 8,823	\$ 12,215	\$ 24,192	\$ 25,838	2.7%-15.0%
United States		1,475	4,124	9,726	15,325	15,729	3.6%-14.1%
		<u>\$ 4,629</u>	<u>\$ 12,947</u>	<u>\$ 21,941</u>	<u>\$ 39,517</u>	<u>\$ 41,567</u>	

3. PORTFOLIO INVESTMENTS *(cont'd)*

(c) Included in portfolio investments are the following:

(i) Non-performing loans:

	2000	1999
Asset Class		
Bonds	\$ 20	\$ —
Mortgage loans	14	79
Foreclosed real estate	4	17
	<u>\$ 38</u>	<u>\$ 96</u>
Geographic		
Canada	\$ 38	\$ 61
United States	—	35
	<u>\$ 38</u>	<u>\$ 96</u>

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

- (1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- (2) the Company no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or
- (3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

(ii) Allowance for credit losses:

	2000	1999
Asset Class		
Bonds	\$ 16	\$ 21
Mortgage loans	27	156
Foreclosed real estate	—	1
	<u>\$ 43</u>	<u>\$ 178</u>
Geographic		
Canada	\$ 43	\$ 57
United States	—	121
	<u>\$ 43</u>	<u>\$ 178</u>

(iii) Changes in the allowance for credit losses are as follows:

	2000	1999
Balance – beginning of year	\$ 178	\$ 203
Provision for credit losses – normal	(16)	(11)
– cyclical	—	(6)
Recoveries of prior write-offs	10	9
Write-offs	(63)	(9)
Other – including foreign exchange rate changes	38	(8)
Transfer to parent	(104)	—
Balance – end of year	<u>\$ 43</u>	<u>\$ 178</u>

The allowance for credit losses includes general provisions, established at a level that together with the provision for future credit losses included in actuarial liabilities, reflects the Company's estimate of potential future credit losses.

- (d) Investments in real estate include an asset value allowance which provides for deterioration of market values associated with real estate held for investment.

	2000	1999
Canada	\$ 31	\$ 34
United States	-	-
	<u>\$ 31</u>	<u>\$ 34</u>

- (e) Also included in portfolio investments are modified/restructured loans that are performing in accordance with their current terms.

	2000	1999
Canada	\$ 77	\$ 103
United States	-	230
	<u>\$ 77</u>	<u>\$ 333</u>

- (f) Net investment income of \$3,650 million (\$3,578 million in 1999) includes amortization of net deferred realized gains (losses) on portfolio investments and unrealized gains (losses) on stocks and real estate as follows:

	2000		
	Canada	United States	Total
Bonds	\$ 84	\$ 18	\$ 102
Mortgage loans	14	2	16
Stocks	94	15	109
Real estate	18	(1)	17
	<u>\$ 210</u>	<u>\$ 34</u>	<u>\$ 244</u>

	1999		
	Canada	United States	Total
Bonds	\$ 106	\$ 22	\$ 128
Mortgage loans	15	1	16
Stocks	76	4	80
Real estate	10	-	10
	<u>\$ 207</u>	<u>\$ 27</u>	<u>\$ 234</u>

- (g) The balance of net deferred gains (losses) on portfolio investments sold is comprised of the following:

	2000		
	Canada	United States	Total
Bonds	\$ 517	\$ 17	\$ 534
Mortgage loans	44	-	44
Stocks	418	9	427
Real estate	15	(10)	5
	<u>\$ 994</u>	<u>\$ 16</u>	<u>\$ 1,010</u>

	1999		
	Canada	United States	Total
Bonds	\$ 622	\$ 83	\$ 705
Mortgage loans	46	1	47
Stocks	413	12	425
Real estate	12	-	12
	<u>\$ 1,093</u>	<u>\$ 96</u>	<u>\$ 1,189</u>

4. PLEDGING OF ASSETS

The amount of assets which have a security interest by way of pledging are outlined below by major pledging activity:

	2000		
	Canada	United States	Total
Derivative transactions	\$ —	\$ —	\$ —
In respect of real estate	127	—	127
In respect of reinsurance agreements	38	—	38
	<u>\$ 165</u>	<u>\$ —</u>	<u>\$ 165</u>
1999			
	Canada	United States	Total
Derivative transactions	\$ —	\$ 4	\$ 4
In respect of real estate	120	—	120
In respect of reinsurance agreements	123	—	123
	<u>\$ 243</u>	<u>\$ 4</u>	<u>\$ 247</u>

5. ACTUARIAL LIABILITIES

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

	2000				
	Participating Policyholders		Non-Participating Policyholders		Total
	Canada	United States	Canada	United States	
Group Insurance	\$ —	\$ —	\$ 2,633	\$ —	\$ 2,633
Individual insurance & investment	9,605	—	6,457	—	16,062
Reinsurance	—	—	4,911	—	4,911
Property & casualty	—	—	18	—	18
Employee benefits	—	—	—	8	8
Financial services	—	—	—	184	184
Total	<u>\$ 9,605</u>	<u>\$ —</u>	<u>\$ 14,019</u>	<u>\$ 192</u>	<u>\$ 23,816</u>
1999					
	Participating Policyholders		Non-Participating Policyholders		Total
	Canada	United States	Canada	United States	
Group Insurance	\$ —	\$ —	\$ 2,575	\$ —	\$ 2,575
Individual insurance & investment	8,892	—	7,329	—	16,221
Reinsurance	—	—	4,405	—	4,405
Property & casualty	—	—	12	—	12
Employee benefits	—	—	—	730	730
Financial services	—	6,167	—	9,926	16,093
Total	<u>\$ 8,892</u>	<u>\$ 6,167</u>	<u>\$ 14,321</u>	<u>\$ 10,656</u>	<u>\$ 40,036</u>

(ii) The composition of the assets supporting liabilities and surplus is as follows:

December 31, 2000

December 31, 2000

	Canada						
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total	
Balance Sheet Value							
Participating							
Individual insurance & investment	\$ 4,934	\$ 2,650	\$ 74	\$ 2	\$ 1,945	\$ 9,605	
Non-Participating							
Group Insurance	1,383	871	73	2	304	2,633	
Individual insurance & investment	3,345	2,680	230	20	182	6,457	
Reinsurance	1,526	—	71	—	3,314	4,911	
Property & casualty	18	—	—	—	—	18	
Other liabilities	3,549	1,272	137	491	573	6,022	
Participating policyholders' surplus	312	25	224	347	317	1,225	
Capital and surplus	478	24	211	178	1,275	2,166	
Total Balance Sheet Value	<u>\$ 15,545</u>	<u>\$ 7,522</u>	<u>\$ 1,020</u>	<u>\$ 1,040</u>	<u>\$ 7,910</u>	<u>\$ 33,037</u>	
Fair Value	<u>\$ 15,637</u>	<u>\$ 7,827</u>	<u>\$ 1,119</u>	<u>\$ 1,236</u>	<u>\$ 7,910</u>	<u>\$ 33,729</u>	

December 31, 2000

December 31, 2000		United States					
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total	
Balance Sheet Value							
Participating							
Financial services	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Non-Participating							
Employee benefits	6	—	—	—	2	8	
Financial services	161	—	—	—	23	184	
Other liabilities	13	—	—	—	9	22	
Participating policyholders' surplus	—	—	—	—	—	—	
Capital and surplus	51	—	1	2	3	57	
Total Balance Sheet Value	\$ 231	\$ —	\$ 1	\$ 2	\$ 37	\$ 271	
Fair Value	\$ 229	\$ —	\$ 2	\$ 2	\$ 37	\$ 270	

December 31, 1999

December 31, 1999		Canada						
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total		
Balance Sheet Value								
Participating								
Individual insurance & investment	\$ 4,736	\$ 2,278	\$ 59	\$ 2	\$ 1,817	\$ 8,892		
Non-Participating								
Group Insurance	1,470	747	41	1	316	2,575		
Individual insurance & investment	3,597	3,258	208	22	244	7,329		
Reinsurance	1,853	—	54	—	2,498	4,405		
Property & casualty	12	—	—	—	—	12		
Other liabilities	3,676	1,225	98	421	328	5,748		
Participating policyholders' surplus	594	28	160	339	83	1,204		
Capital and surplus	662	(1)	120	162	1,177	2,120		
Total Balance Sheet Value	\$ 16,600	\$ 7,535	\$ 740	\$ 947	\$ 6,463	\$ 32,285		
Fair Value	\$ 16,146	\$ 7,660	\$ 809	\$ 1,103	\$ 6,463	\$ 32,181		

5. ACTUARIAL LIABILITIES (cont'd)

December 31, 1999

	United States					
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total
Balance Sheet Value						
Participating						
Financial services	\$ 2,537	\$ 132	\$ —	\$ —	\$ 3,498	\$ 6,167
Non-Participating						
Employee benefits	643	79	—	—	4	726
Financial services	8,013	1,089	—	—	828	9,930
Other liabilities	925	—	—	—	1,413	2,338
Participating policyholders'/surplus	174	11	7	16	—	208
Capital and surplus	1,505	96	62	143	9	1,815
Total Balance Sheet Value	<u>\$ 13,797</u>	<u>\$ 1,407</u>	<u>\$ 69</u>	<u>\$ 159</u>	<u>\$ 5,752</u>	<u>\$ 21,184</u>
Fair Value	<u>\$ 13,447</u>	<u>\$ 1,399</u>	<u>\$ 79</u>	<u>\$ 168</u>	<u>\$ 5,752</u>	<u>\$ 20,845</u>

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

The carrying value of assets backing actuarial liabilities plus the portion of deferred gains associated with actuarial liabilities is \$24,381 million (\$40,628 million in 1999). The fair value of these assets is \$24,730 million (\$40,050 million in 1999).

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, annuity liabilities and London Life's group life and health claim liabilities have been established using cash flow valuation techniques. All other actuarial liabilities have been determined using the policy premium method.

(c) Changes in Actuarial Liabilities

The change in actuarial liabilities is as follows:

	Canada					
	Participating Policyholders		Non-Participating Policyholders		Total	
	2000	1999	2000	1999	2000	1999
Balance – beginning of year	\$ 8,892	\$ 8,245	\$ 14,321	\$ 14,953	\$ 23,213	\$ 23,198
Reclassification	—	—	3	111	3	111
Normal change – new business	9	6	1,166	734	1,175	740
– in force	606	547	(1,554)	(1,302)	(948)	(755)
Material assumption changes	98	94	(45)	—	53	94
Foreign exchange rate changes	—	—	128	(175)	128	(175)
Acquisitions	—	—	—	—	—	—
Balance – end of year	\$ 9,605	\$ 8,892	\$ 14,019	\$ 14,321	\$ 23,624	\$ 23,213

	United States					
	Participating Policyholders		Non-Participating Policyholders		Total	
	2000	1999	2000	1999	2000	1999
Balance – beginning of year	\$ 6,167	\$ 6,225	\$ 10,656	\$ 11,705	\$ 16,823	\$ 17,930
Normal change – new business	–	1	444	415	444	416
– in force	410	303	(531)	(802)	(121)	(499)
Material assumption changes	–	–	–	–	–	–
Foreign exchange rate changes	247	(362)	419	(662)	666	(1,024)
Acquisitions	–	–	131	–	131	–
Corporate reorganization	(6,824)	–	(10,927)	–	(17,751)	–
Balance – end of year	\$ –	\$ 6,167	\$ 192	\$ 10,656	\$ 192	\$ 16,823

In 2000 assumption changes were made to provide for future participating policyholder obligations and excess interest rate and claim risk provisions were released for non-participating policyholders.

In 1999 assumption changes were made to provide for future participating policyholder obligations.

The reclassification in 1999 consists primarily of a transfer of provisions for adverse deviations from experience refunds to actuarial liabilities.

(d) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually, by country, for Canada and the United States. The results of this study are analyzed and used to update the Company's experience valuation mortality table for life insurance. Where there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity—The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Investment Returns – The assets which correspond to the different liability categories are segmented. From each segment, current returns together with reinvestment assumptions are used to derive interest rates to value future events. These interest rates are reduced to provide for projected asset default losses and reinvestment risk. For the cash flow valuation technique, actual asset and liability future cash flows are used in determining the policy liability amounts.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

Policy Termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has reflected the emerging trend of lower lapsation on lapse supported benefits in its policy liabilities.

Policyholder Dividends – Policyholder dividends are included in future policy benefits at the current scale of policyholder dividends. The Actuary has assumed that policyholder dividends will be changed from the current scale to reflect any differing operating experience of the participating account in future years.

5. ACTUARIAL LIABILITIES (cont'd)

(e) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining investment yield in order to incorporate reinvestment risk in the actuarial valuation.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on currently held assets. The net effective yield rate reduction averaged .18% in Canada.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	Participating Policyholders		Non-Participating Policyholders		Total
	Canada	United States	Canada	United States	
December 31, 2000	\$ 232	\$ —	\$ 95	\$ —	\$ 327
December 31, 1999	\$ 164	\$ 12	\$ 104	\$ 48	\$ 328

(iii) Reinsurance risk

Large amount claim risk for life and health insurance and property and casualty insurance is controlled by having reinsurance in place for claims over specified maximum benefit amounts (which vary by line of business) and by having consolidated catastrophic accident coverage in place covering up to \$200 million of claims from a single event.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	Participating Policyholders		Non-Participating Policyholders		Total
	Canada	United States	Canada	United States	
December 31, 2000	\$ 9	\$ —	\$ 504	\$ 892	\$ 1,405
December 31, 1999	\$ 8	\$ 25	\$ 452	\$ 193	\$ 678

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 55% of policyholder liabilities are non-cashable prior to maturity or subject to market value adjustments.

(f) Sensitivity of Actuarial Assumptions

The actuarial assumption most susceptible to change in the short term is future investment returns. Based on the projected cash flows of the non-participating business of the Company as of December 31, 2000, the approximate after-tax impact of an immediate 1% increase in the general level of interest rates applied to actuarial liabilities and associated assets would be to increase the fair value of surplus by \$4 million. The impact of an immediate 1% decrease would decrease the fair value of surplus by \$14 million.

6. COMMERCIAL PAPER AND OTHER LOANS**(a) Commercial paper and other loans consist of the following:**

	2000		
	Balance Sheet Value		
	Canada	United States	Total
			Fair Value Total
Short Term			
Revolving credit in respect of reinsurance business with interest rates from 6.2% to 7.3% maturing within one year	\$ 77	\$ –	\$ 77
Total short term	77	–	77
Long Term			
Operating:			
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2014	158	–	158
Other notes payable at interest rates from 8.0% to 9.0%	25	–	25
Sub total	183	–	183
Capital:			
6.75% Debentures due August 10, 2015 unsecured	200	–	200
Subordinated notes due September 30, 2010, non interest bearing	63	–	63
Sub total	263	–	263
Total long term	446	–	446
Total	\$ 523	\$ –	\$ 523
Interest expense on long term loans	\$ 28	\$ 19	\$ 47

6. COMMERCIAL PAPER AND OTHER LOANS (cont'd)

	1999		
	Balance Sheet Value		
	Canada	United States	Total
Short Term			
Commercial paper and other short term borrowings with interest rates from 4.6% to 5.3%	\$ 100	\$ —	\$ 100
Revolving credit in respect of reinsurance business with interest rates from 5.1% to 6.1% maturing within one year	47	—	47
Total short term	147	—	147
Long Term			
Operating:			
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2014	155	—	155
Other notes payable at interest rates from 4.3% to 9.0%	36	—	36
Sub total	191	—	191
Capital:			
9.375% Senior debentures due January 8, 2002, unsecured	100	—	100
Subordinated notes due September 30, 2010, non-interest bearing	63	—	63
7.25% Subordinated capital income securities redeemable by the Company on or after June 30, 2004, due June 30, 2048, unsecured (U.S.\$175)	—	252	252
Sub total	163	252	415
Total long term	354	252	606
Total	\$ 501	\$ 252	\$ 753
Interest expense on long term loans	\$ 27	\$ 13	\$ 40

(b) Principal Repayments of Long Term Loans

	Operating	Capital	Total
2001	\$ 3	\$ —	\$ 3
2002	44	—	44
2003	59	—	59
2004	27	—	27
2005	16	—	16
2006 and thereafter	34	263	297
	<u>\$ 183</u>	<u>\$ 263</u>	<u>\$ 446</u>

7. MINORITY SHAREHOLDERS' INTERESTS

The equity interest of the Company in London Insurance Group was 100% at December 31, 2000 and 1999. The non-controlling interests of London Insurance Group and its subsidiaries are:

	2000	1999
Preferred shareholders	\$ 450	\$ 450
Minority interests in capital stock and surplus	10	17
	<u>\$ 460</u>	<u>\$ 467</u>

During 1999 the Company purchased 9,198 London Life outstanding common shares for a total consideration of \$52 million including acquisition costs. The acquisition has been accounted for by the purchase method resulting in a reduction in minority interest of \$14 million and an increase in goodwill of \$38 million.

8. CAPITAL STOCK

Authorized
Unlimited Preferred Shares
Unlimited Common Shares

	2000		1999	
	Number	Stated Value (thousands)	Number	Stated Value (thousands)
Issued and outstanding:				
Preferred Shares:				
Series K, 7.25% Non-Cumulative Perpetual Preferred Shares	–	\$ –	4,000,000	\$ 100,000
Series L, 5.20% Non-Cumulative Preferred Shares	17,995,512	449,888	17,995,512	449,888
Series N, 5.00% Non-Cumulative Preferred Shares	2,911,955	72,798	5,175,955	129,398
Balance, end of year	20,907,467	\$ 522,686	27,171,467	\$ 679,286
Common Shares:				
Balance, beginning of year	2,378,666	\$ 979,310	2,370,956	\$ 950,154
Corporate reorganization	(1,209,292)	(497,872)	–	–
Exchanged for Preferred Series K & Series N	30,520	156,600	–	–
Issued on acquisition of London Life common shares	–	–	7,710	29,160
Consolidation of common shares and acquisition of fractional interests	–	–	(2,378,191)	(4)
Stock dividend	–	–	2,378,191	–
Balance, end of year	1,199,894	\$ 638,038	2,378,666	\$ 979,310
Total Capital Stock		\$ 1,160,724		\$ 1,658,596

The Series L, 5.20% Non-Cumulative Preferred Shares are redeemable at the option of the Company and are convertible to Series M Preferred Shares at the option of the holder, in each case on October 31, 2007 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

The Series N, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company on or after October 31, 2004, and are convertible to Common Shares of the Company at the option of the Company on or after October 31, 2004 and at the option of the holder on or after January 31, 2005, subject to the requisite statutory approval.

(a) During 2000:

- (i) As part of the corporate reorganization described in note 2, 1,209,292 Common Shares of the Company were purchased for cancellation at a stated value of \$497 million.
- (ii) The Company and its parent company, Lifeco, exchanged 4,000,000 Series K, 7.25% Non-Cumulative Perpetual Preferred Shares and 2,264,000 of the outstanding 5,175,955 Series N, 5.00% Non-Cumulative Preferred Shares for 30,520 Common Shares with a stated value of \$157 million.

(b) During 1999:

- (i) The Company issued to its parent Lifeco, 403,487 Series N 5.00% Non-Cumulative Preferred Shares for a value of \$10 million and 7,710 Common Shares for a value of \$29 million in exchange for 9,198 London Life Common Shares.
- (ii) The Company, following a consolidation of its common shares, acquired the fractional interests in its common shares for a total expenditure of \$19 million. The amount of the purchase price that was in excess of the stated capital was \$19 million and has been charged to shareholders' surplus. Subsequent to the consolidation of share capital, a stock dividend was declared which resulted in the number of shares outstanding being 2,378,666, the balance at December 31, 1999.

9. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The major impact of the adoption of the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 Employee Future Benefits is the recognition or accrual of the cost of all post retirement benefits other than pensions over the periods of employee service. This change in accounting policy has been applied retroactively without restatement of prior years' financial statements and, results in a charge to participating policyholders' surplus of \$3 million, a charge to shareholders' surplus of \$44 million, an increase in other liabilities of \$77 million and an increase in future income taxes receivable of \$30 million. There is no material effect on current year net income.

9. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS (cont'd)**(a) Defined Benefit Pension Plans**

(i) The status of the Company's defined benefit pension plans is as follows:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Assets at fair value	\$ 1,245	\$ -	\$ 1,245	\$ 1,206	\$ 277	\$ 1,483
Accumulated pension obligation	1,026	-	1,026	1,001	182	1,183
Excess of assets over obligations	219	-	219	205	95	300
Unamortized net experience gains and assumption changes	(163)	-	(163)	(162)	(58)	(220)
Unamortized net asset at transition	(8)	-	(8)	(14)	-	(14)
Excess funding contribution balance (reflected in Other Assets)	\$ 48	\$ -	\$ 48	\$ 29	\$ 37	\$ 66
Significant Weighted-Average Actuarial Assumptions:						
Discount rate	7.00%			7.00%	7.50%	
Expected return on assets	8.00%			8.00%	8.50%	
Assumed compensation increase	5.50%			5.50%	5.00%	

(ii) The change in the fair value of plan assets is as follows:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Fair value of assets, beginning of year	\$ 1,206	\$ 277	\$ 1,483	\$ 1,134	\$ 280	\$ 1,414
Acquisition related employees	-	-	-	-	4	4
Employee contributions	4	-	4	4	-	4
Employer contributions	1	-	1	1	-	1
Return on plan assets	116	9	125	135	18	153
Benefits paid	(82)	(7)	(89)	(68)	(9)	(77)
Foreign exchange rate changes	-	11	11	-	(16)	(16)
Corporate reorganization	-	(290)	(290)	-	-	-
Fair value of assets, end of year	\$ 1,245	\$ -	\$ 1,245	\$ 1,206	\$ 277	\$ 1,483

(iii) The change in the accrued benefit obligation is as follows:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Accumulated pension obligation, beginning of year	\$ 1,001	\$ 182	\$ 1,183	\$ 970	\$ 184	\$ 1,154
Acquisition related employees	-	-	-	-	6	6
Current service cost	31	11	42	29	12	41
Interest on accrued pension obligation	71	14	85	64	12	76
Actuarial (gains) losses	5	3	8	6	(16)	(10)
Benefits paid	(82)	(7)	(89)	(68)	(5)	(73)
Foreign exchange rate changes	-	8	8	-	(11)	(11)
Corporate reorganization	-	(211)	(211)	-	-	-
Accumulated pension obligation, end of year	\$ 1,026	\$ -	\$ 1,026	\$ 1,001	\$ 182	\$ 1,183

(iv) Pension expense is determined as follows:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Current service cost	\$ 31	\$ 11	\$ 42	\$ 29	\$ 12	\$ 41
Employee contributions	(4)	—	(4)	(4)	—	(4)
Employer current service cost	27	11	38	25	12	37
Interest on accrued pension obligation	71	14	85	64	12	76
Amortization of net experience gains and assumption changes	(14)	(3)	(17)	(11)	(6)	(17)
Amortization of net asset at transition	(5)	—	(5)	(5)	(1)	(6)
Expected return on plan assets	(96)	(26)	(122)	(85)	(18)	(103)
	<u>\$ (17)</u>	<u>\$ (4)</u>	<u>\$ (21)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ (13)</u>

In Canada, actuarial valuation reports were prepared as at December 31, 1999. In the United States, an actuarial valuation report was prepared during 1999. Actuarial estimates for 2000 were made based on these reports.

(b) Other Pension Plans

(i) The Company also maintains defined contribution pension plans for certain employees and agents the costs of which are as follows:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Contributions expensed	\$ 2	\$ 9	\$ 11	\$ 1	\$ 8	\$ 9

(ii) In addition, the Company maintains supplemental executive retirement plans for certain key executives which provide certain benefits upon retirement, disability or death.

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
In year expense	\$ 2	\$ 4	\$ 6	\$ 1	\$ 4	\$ 5
End of year total liability	\$ 22	\$ —	\$ 22	\$ 21	\$ 21	\$ 42

(c) Other Post-Retirement Benefits

(i) The status of the Company's other post-retirement benefits plans is as follows:

	2000		
	Canada	United States	Total
Accumulated other post retirement benefits obligation	\$ 167	\$ —	\$ 167
Unamortized experience gain	8	—	8
Accrued benefit obligation (reflected in Other Liabilities)	<u>\$ 175</u>	<u>\$ —</u>	<u>\$ 175</u>

Significant Weighted-Average Actuarial Assumptions:

The discount rate used to determine the accrued benefit obligation was 7.0% for the Canadian plans and 7.5% for the United States plans. In determining the expected cost of Canadian health care benefit plans, it was assumed that health care costs would increase by 7.25% in 2000 and that the rate would gradually decrease to a level of 4.5% by 2005. For the United States health care benefit plans, it was assumed that health care costs would increase by 7.4% in 2000 and that the rate would gradually decrease to a level of 6.5% by 2009.

9. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (cont'd)

- (ii) The change in the other post-retirement benefits obligation is as follows:

	2000		
	Canada	United States	Total
Accumulated other post-retirement benefits obligation, beginning of year	\$ 165	\$ 42	\$ 207
Current service cost	5	4	9
Interest on accrued other post-retirement benefit obligation	11	3	14
Actuarial (gains) losses	(7)	—	(7)
Benefits paid	(7)	(1)	(8)
Foreign exchange rate changes	—	2	2
Corporate reorganization	—	(50)	(50)
Accumulated other post-retirement benefits obligation, end of year	\$ 167	\$ —	\$ 167

- (iii) Other post-retirement benefits expense is determined as follows:

	2000		
	Canada	United States	Total
Current service cost	\$ 5	\$ 4	\$ 9
Interest on accrued other post-retirement benefit obligation	11	3	14
Amortization of unrecognized net obligation at transition	—	1	1
	\$ 16	\$ 8	\$ 24

10. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company provided insurance benefits amounting to \$18 million in 2000 (\$16 million in 1999) to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During the year, the Company obtained certain administrative services from Investors Group, a member of the Power Financial Corporation group of companies. A total operating and sales expense of \$6 million was included in the 2000 financial statements with respect to those services (\$10 million in 1999). The Company also provided life insurance and disability insurance products under a distribution agreement with Investors Group. All services were provided on terms and conditions at least as favourable as market terms and conditions.

During 2000, the Company purchased residential mortgages of \$297 million from Investors Group. All transactions were at market terms and conditions.

During 1999, the Company purchased 9,198 London Life common shares from its parent Great-West Lifeco Inc. For a total consideration of \$52 million including acquisition costs, made up of a combination of \$13 million cash, \$10 million preferred shares and \$29 million common shares.

At December 31, 2000 Commercial Paper and Other Loans of the Company include interest-free subordinated loans totalling \$63 million (\$63 million at December 31, 1999) from its parent company, Great-West Lifeco Inc. These loans are due on September 30, 2010 and, subject to requisite approval, may be pre-paid in whole or in part without notice or penalty.

11. INCOME TAXES

- (a) Future income taxes consist of the following taxable temporary differences on:

	2000	1999
Policy liabilities	\$ (54)	\$ 46
Portfolio investments	102	193
Other	(45)	(81)
	\$ 3	\$ 158

(b) The Company's effective income tax rate is made up as follows:

	2000	1999
Combined basic Canadian federal and provincial tax rate	43.5 %	44.0 %
Increase (decrease) in the income tax rate resulting from:		
Tax exempt dividends	(1.6)	(1.5)
Tax exempt portion of capital gains	(0.2)	(0.2)
Lower effective tax rates on income not subject to tax in Canada	(5.3)	(6.9)
Investment income tax	2.4	2.9
Large corporations tax	—	0.1
Impact of rate changes of future income taxes	0.1	—
Miscellaneous	2.0	(1.0)
Effective income tax rate applicable to current year	40.9 %	37.4 %
Decrease in the income tax rate resulting from prior years' tax adjustments	(3.2) %	(3.0) %
Effective income tax rate	37.7 %	34.4 %

12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments that are not reported on the balance sheet. All contracts are over-the-counter traded and are with counterparties that are highly rated financial institutions.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

	2000				
	Notional Amount	Maximum Credit Risk	Future Credit Exposure	Credit Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Futures	\$ —	\$ —	\$ —	\$ —	\$ —
Swaps	583	8	7	15	3
Options written	10	—	—	—	—
Options purchased	—	—	—	—	—
	593	8	7	15	3
Foreign Exchange Contracts					
Forward contracts	1,414	11	35	47	10
Cross-currency swaps	765	16	51	66	13
	2,179	27	86	113	23
Other Derivative Contracts					
Equity contracts	330	87	26	34	12
	\$ 3,102	\$ 122	\$ 119	\$ 162	\$ 38
Geographic					
Canada	\$ 3,102	\$ 122	\$ 119	\$ 162	\$ 38
United States	—	—	—	—	—
	\$ 3,102	\$ 122	\$ 119	\$ 162	\$ 38

12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS (cont'd)

	1999				
	Notional Amount	Maximum Credit Risk	Future Credit Exposure	Credit Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Futures	\$ 354	\$ —	\$ —	\$ —	\$ —
Swaps	654	7	5	12	2
Options written	88	—	—	—	—
Options purchased	1,966	6	9	15	3
	<u>3,062</u>	<u>13</u>	<u>14</u>	<u>27</u>	<u>5</u>
Foreign Exchange Contracts					
Forward contracts	771	36	7	43	9
Cross-currency swaps	620	15	40	55	11
	<u>1,391</u>	<u>51</u>	<u>47</u>	<u>98</u>	<u>20</u>
Other Derivative Contracts					
Equity contracts	278	105	24	35	12
	<u>\$ 4,731</u>	<u>\$ 169</u>	<u>\$ 85</u>	<u>\$ 160</u>	<u>\$ 37</u>
Geographic					
Canada	\$ 1,881	\$ 161	\$ 60	\$ 127	\$ 30
United States	2,850	8	25	33	7
	<u>\$ 4,731</u>	<u>\$ 169</u>	<u>\$ 85</u>	<u>\$ 160</u>	<u>\$ 37</u>

- (b) The following table provides the use, notional amount and estimated fair value of the Company's derivative portfolio at December 31:

	2000							
	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes			
	Notional Amount			Total Estimated Fair Value	Notional Amount			Total Estimated Fair Value
	1 Year or Less	1-5 Years	Over 5 Years		1 Year or Less	1-5 Years	Over 5 Years	
Interest Rate Contracts								
Futures	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Swaps	20	154	109	7	—	—	300	—
Options written	—	—	10	—	—	—	—	—
Options purchased	—	—	—	—	—	—	—	—
	<u>20</u>	<u>154</u>	<u>119</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>300</u>	<u>—</u>
Foreign Exchange Contracts								
Forward contracts	65	—	—	(1)	818	531	—	6
Cross-currency swaps	5	262	498	(44)	—	—	—	—
	<u>70</u>	<u>262</u>	<u>498</u>	<u>(45)</u>	<u>818</u>	<u>531</u>	<u>—</u>	<u>6</u>
Other Derivative Contracts								
Equity contracts	53	—	95	84	86	96	—	(2)
	<u>\$ 143</u>	<u>\$ 416</u>	<u>\$ 712</u>	<u>\$ 46</u>	<u>\$ 904</u>	<u>\$ 627</u>	<u>\$ 300</u>	<u>\$ 4</u>
Geographic								
Canada	\$ 143	\$ 416	\$ 712	\$ 46	\$ 904	\$ 627	\$ 300	\$ 4
United States	—	—	—	—	—	—	—	—
	<u>\$ 143</u>	<u>\$ 416</u>	<u>\$ 712</u>	<u>\$ 46</u>	<u>\$ 904</u>	<u>\$ 627</u>	<u>\$ 300</u>	<u>\$ 4</u>

1999								
	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes			
	Notional Amount			Total Estimated Fair Value	Notional Amount			Total Estimated Fair Value
	1 Year or Less	1-5 Years	Over 5 Years		1 Year or Less	1-5 Years	Over 5 Years	
Interest Rate Contracts								
Futures	\$ 354	\$ —	\$ —	\$ (3)	\$ —	\$ —	\$ —	\$ —
Swaps	60	377	217	(4)	—	—	—	—
Options written	—	78	10	(9)	—	—	—	—
Options purchased	144	1,822	—	6	—	—	—	—
	558	2,277	227	(10)	—	—	—	—
Foreign Exchange Contracts								
Forward contracts	65	—	—	(1)	706	—	—	36
Cross-currency swaps	54	140	426	(17)	—	—	—	—
	119	140	426	(18)	706	—	—	36
Other Derivative Contracts								
Equity contracts	33	150	95	94	—	—	—	—
	\$ 710	\$ 2,567	\$ 748	\$ 66	\$ 706	\$ —	\$ —	\$ 36
Geographic								
Canada	\$ 244	\$ 247	\$ 684	\$ 85	\$ 706	\$ —	\$ —	\$ 36
United States	466	2,320	64	(19)	—	—	—	—
	\$ 710	\$ 2,567	\$ 748	\$ 66	\$ 706	\$ —	\$ —	\$ 36

- (c) Realized gains (losses) net of tax derived from derivative contracts held for other purposes, associated with the management of the volatility of the foreign currency translation of the United States operations into Canadian dollars was \$7 million (\$5 million in 1999).

13. CONTINGENT LIABILITIES

The Company and its' subsidiaries are subject to individual legal actions arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, at December 31, 2000 there are three proposed class actions against Great-West (one in each of British Columbia, Ontario and Quebec), and five proposed class actions against London Life (three in Ontario, and one in each of British Columbia and Quebec), related to the availability of policyholder dividends to pay future premiums. There is also a proposed class proceeding in Ontario against the Company, London Insurance Group and London Life regarding the participation of the London Life participating policyholder account in the financing of the acquisition of London Insurance Group in 1997 by Great-West. The Courts have not yet decided whether any of these actions will proceed as a class action. These actions are in their early stages and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that any of these actions will have a material adverse effect on the consolidated financial position of the Company.

14. COMMITMENTS

London Reinsurance Group Inc. (LRG), a subsidiary of the London Life Insurance Company (London Life), is required to obtain letters of credit issued on LRG's behalf from approved banks in order to secure obligations under certain reinsurance contracts.

In October, 2000 LRG entered into a syndicated letter of credit facility providing U.S. \$1.425 billion in letters of credit capacity. Under the terms and conditions of this facility, collateralization may be required dependent on future credit ratings of specific LRG subsidiaries and London Life. At December 31, 2000, LRG has issued U.S. \$1.107 billion in letters of credit under this facility. At December 31, 1999, LRG had issued U.S. \$858 million under a previous facility. In addition, LRG has other letter of credit facilities totalling U.S. \$40 million (1999 – U.S. \$40 million).

15. SEGMENTED INFORMATION

The major reportable segments are the Canadian and United States operations of the Company. In Canada, the Company operates through Great-West and its wholly owned subsidiary London Insurance Group. In the United States, the Company operates primarily through Great-West's wholly owned subsidiary Great-West Life & Annuity Insurance Company. The Canadian and United States segments are also presented by participating and non-participating products.

The major business units for the Canadian operating segment are:

- | | |
|--|--|
| Group Insurance | – life, health and disability insurance products for group clients. |
| Individual Insurance & Investment Products | – life insurance and disability insurance products for individual clients, accumulation and payout annuity products for both group and individual clients. |
| Reinsurance & Specialty General Insurance | – life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche business markets. |
| Corporate | – business activities and operations that are not associated with the major business units of Canadian operations. |

The major business units for the United States operating segment are:

- | | |
|--------------------|--|
| Employee Benefits | – life, health, disability insurance and 401(k) products for group clients. |
| Financial Services | – accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients. |
| Corporate | – business activities and operations that are not associated with the major business units of United States operations. |

(a) Consolidated Operations

Year Ended December 31, 2000

	Canadian Operations						Total Canada
	Shareholders					Participating Policyholders	
	Group Insurance	Individual Insurance & Investment Products	Reinsurance & Specialty	Corporate	Total	Individual Insurance & Investment Products	
Income:							
Premium income	\$ 1,872	\$ 574	\$ 2,878	\$ –	\$ 5,324	\$ 1,302	\$ 6,626
Net investment income	209	513	412	116	1,250	936	2,186
Fee and other income	51	279	2	14	346	–	346
Total income	2,132	1,366	3,292	130	6,920	2,238	9,158
Benefits and Expenses:							
Paid or credited to policyholders	1,630	719	3,205	6	5,560	1,863	7,423
Other	354	395	61	9	819	260	1,079
Net operating income before income taxes	148	252	26	115	541	115	656
Income taxes	59	95	(10)	23	167	83	250
Net income before minority shareholders' interests	89	157	36	92	374	32	406
Minority shareholders' interests of London Insurance Group							
Preferred shareholder dividends	–	–	–	21	21	–	21
Minority shareholders' interests	–	–	(6)	–	(6)	9	3
	–	–	(6)	21	15	9	24
Net income before goodwill amortization	89	157	42	71	359	23	382
Amortization of goodwill	23	28	8	1	60	–	60
Net income	\$ 66	\$ 129	\$ 34	\$ 70	\$ 299	\$ 23	\$ 322

SUMMARY OF NET INCOME

Attributable to participating policyholders

Net income before policyholder dividends	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 559	\$ 559
Policyholder dividends	–	–	–	–	–	536	536
Net income – participating policyholders	–	–	–	–	–	23	23

Attributable to shareholders

Preferred shareholder dividends	–	–	–	31	31	–	31
Net income – common shareholders	66	129	34	39	268	–	268
	66	129	34	70	299	–	299
Net income	\$ 66	\$ 129	\$ 34	\$ 70	\$ 299	\$ 23	\$ 322

15. SEGMENTED INFORMATION (cont'd)

Year Ended December 31, 2000

	United States Operations						
	Shareholders				Participating Policyholders		
	Employee Benefits	Financial Services	Corporate	Total	Financial Services	Total U.S.	Total Company
Income:							
Premium income	\$ 1,785	\$ 1,159	\$ –	\$ 2,944	\$ 406	\$ 3,350	\$ 9,976
Net investment income	136	798	42	976	488	1,464	3,650
Fee and other income	1,117	178	–	1,295	–	1,295	1,641
Total income	3,038	2,135	42	5,215	894	6,109	15,267
Benefits and Expenses:							
Paid or credited to policyholders	1,446	1,650	2	3,098	853	3,951	11,374
Other	1,278	228	24	1,530	28	1,558	2,637
Net operating income before income taxes	314	257	16	587	13	600	1,256
Income taxes	106	82	3	191	9	200	450
Net income before minority shareholders' interests	208	175	13	396	4	400	806
Minority shareholders' interests of London Insurance Group							
Preferred shareholder dividends	–	–	–	–	–	–	21
Minority shareholders' interests	–	–	–	–	–	–	3
	–	–	–	–	–	–	24
Net income before goodwill amortization	208	175	13	396	4	400	782
Amortization of goodwill	3	1	–	4	–	4	64
Net income	\$ 205	\$ 174	\$ 13	\$ 392	\$ 4	\$ 396	\$ 718

SUMMARY OF NET INCOME**Attributable to participating policyholders**

Net income before policyholder dividends	\$ –	\$ –	\$ –	\$ –	\$ 185	\$ 185	\$ 744
Policyholder dividends	–	–	–	–	181	181	717
Net income – participating policyholders	–	–	–	–	4	4	27

Attributable to shareholders

Preferred shareholder dividends	–	–	6	6	–	6	37
Net income – common shareholders	205	174	7	386	–	386	654
	205	174	13	392	–	392	691
Net income	\$ 205	\$ 174	\$ 13	\$ 392	\$ 4	\$ 396	\$ 718

Year Ended December 31, 1999

	Canadian Operations						
	Shareholders					Participating Policyholders	Total Canada
	Group Insurance	Individual Insurance & Investment Products	Reinsurance & Specialty	Corporate	Total	Individual Insurance & Investment Products	
Income:							
Premium income	\$ 1,742	\$ 667	\$ 2,075	\$ –	\$ 4,484	\$ 1,281	\$ 5,765
Net investment income	206	597	379	95	1,277	915	2,192
Fee and other income	49	220	2	7	278	–	278
Total income	1,997	1,484	2,456	102	6,039	2,196	8,235
Benefits and Expenses:							
Paid or credited to policyholders	1,550	895	2,309	21	4,775	1,772	6,547
Other	344	372	50	10	776	273	1,049
Net operating income before income taxes	103	217	97	71	488	151	639
Income taxes	43	82	13	2	140	94	234
Net income before minority shareholders' interests	60	135	84	69	348	57	405
Minority shareholders' interests of London Insurance Group							
Preferred shareholder dividends	–	–	–	18	18	–	18
Minority shareholders' interests	–	–	10	1	11	(7)	4
	–	–	10	19	29	(7)	22
Net income before goodwill amortization	60	135	74	50	319	64	383
Amortization of goodwill	23	28	8	–	59	1	60
Net income	\$ 37	\$ 107	\$ 66	\$ 50	\$ 260	\$ 63	\$ 323

SUMMARY OF NET INCOME

Attributable to participating policyholders

Net income before policyholder dividends	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 578	\$ 578
Policyholder dividends	–	–	–	–	–	515	515
Net income – participating policyholders	–	–	–	–	–	63	63

Attributable to shareholders

Preferred shareholder dividends	–	–	–	33	33	–	33
Net income – common shareholders	37	107	66	17	227	–	227
	37	107	66	50	260	–	260
Net income	\$ 37	\$ 107	\$ 66	\$ 50	\$ 260	\$ 63	\$ 323

15. SEGMENTED INFORMATION (cont'd)

Year Ended December 31, 1999

	United States Operations						
	Shareholders				Participating Policyholders	Total U.S.	Total Company
	Employee Benefits	Financial Services	Corporate	Total	Financial Services		
Income:							
Premium income	\$ 1,542	\$ 818	\$ —	\$ 2,360	\$ 401	\$ 2,761	\$ 8,526
Net investment income	123	796	38	957	429	1,386	3,578
Fee and other income	817	132	(4)	945	(1)	944	1,222
Total income	<u>2,482</u>	<u>1,746</u>	<u>34</u>	<u>4,262</u>	<u>829</u>	<u>5,091</u>	<u>13,326</u>
Benefits and Expenses:							
Paid or credited to policyholders	1,235	1,344	22	2,601	788	3,389	9,936
Other	989	194	11	1,194	27	1,221	2,270
Net operating income before income taxes	<u>258</u>	<u>208</u>	<u>1</u>	<u>467</u>	<u>14</u>	<u>481</u>	<u>1,120</u>
Income taxes	89	69	(20)	138	(6)	132	366
Net income before minority shareholders' interests	<u>169</u>	<u>139</u>	<u>21</u>	<u>329</u>	<u>20</u>	<u>349</u>	<u>754</u>
Minority shareholders' interests of London Insurance Group							
Preferred shareholder dividends	—	—	—	—	—	—	18
Minority shareholders' interests	—	—	—	—	—	—	4
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22</u>
Net income before goodwill amortization	<u>169</u>	<u>139</u>	<u>21</u>	<u>329</u>	<u>20</u>	<u>349</u>	<u>732</u>
Amortization of goodwill	1	—	—	1	—	1	61
Net income	<u>\$ 168</u>	<u>\$ 139</u>	<u>\$ 21</u>	<u>\$ 328</u>	<u>\$ 20</u>	<u>\$ 348</u>	<u>\$ 671</u>

SUMMARY OF NET INCOME**Attributable to participating policyholders**

Net income before policyholder dividends	\$ —	\$ —	\$ —	\$ —	\$ 169	\$ 169	\$ 747
Policyholder dividends	—	—	—	—	149	149	664
Net income – participating policyholders	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20</u>	<u>20</u>	<u>83</u>
Attributable to shareholders							
Preferred shareholder dividends	—	—	6	6	—	6	39
Net income – common shareholders	168	139	15	322	—	322	549
	<u>168</u>	<u>139</u>	<u>21</u>	<u>328</u>	<u>—</u>	<u>328</u>	<u>588</u>
Net income	<u>\$ 168</u>	<u>\$ 139</u>	<u>\$ 21</u>	<u>\$ 328</u>	<u>\$ 20</u>	<u>\$ 348</u>	<u>\$ 671</u>

(b) Consolidated Balance Sheet

December 31, 2000

	Canada			United States			Total Company
	Share-holders	Participating Policyholders	Total	Share-holders	Participating Policyholders	Total	
Assets							
Invested assets	\$ 14,100	\$ 12,716	\$ 26,816	\$ 265	\$ —	\$ 265	\$ 27,081
Goodwill	1,575	—	1,575	—	—	—	1,575
Other assets	4,154	492	4,646	6	—	6	4,652
Total general funds assets	\$ 19,829	\$ 13,208	\$ 33,037	\$ 271	\$ —	\$ 271	\$ 33,308
Segregated funds assets			18,682			—	18,682
Total assets under administration			\$ 51,719			\$ 271	\$ 51,990
Liabilities, policyholders' & shareholders' equity							
Policy liabilities	\$ 15,104	\$ 11,193	\$ 26,297	\$ 200	\$ —	\$ 200	\$ 26,497
Net deferred gains on portfolio investments sold	512	482	994	16	—	16	1,010
Other liabilities	1,587	308	1,895	(2)	—	(2)	1,893
Minority shareholders' interests	460	—	460	—	—	—	460
Capital stock & surplus	2,166	1,225	3,391	57	—	57	3,448
Total general funds liabilities, policyholders' & shareholders' equity	\$ 19,829	\$ 13,208	\$ 33,037	\$ 271	\$ —	\$ 271	\$ 33,308

December 31, 1999

	Canada			United States			Total Company
	Share-holders	Participating Policyholders	Total	Share-holders	Participating Policyholders	Total	
Assets							
Invested assets	\$ 15,074	\$ 12,292	\$ 27,366	\$ 13,360	\$ 6,424	\$ 19,784	\$ 47,150
Goodwill	1,629	—	1,629	36	—	36	1,665
Other assets	2,900	390	3,290	1,136	228	1,364	4,654
Total general funds assets	\$ 19,603	\$ 12,682	\$ 32,285	\$ 14,532	\$ 6,652	\$ 21,184	\$ 53,469
Segregated funds assets			15,730			17,998	33,728
Total assets under administration			\$ 48,015			\$ 39,182	\$ 87,197
Liabilities, policyholders' & shareholders' equity							
Policy liabilities	\$ 15,216	\$ 10,551	\$ 25,767	\$ 11,386	\$ 6,280	\$ 17,666	\$ 43,433
Net deferred gains on portfolio investments sold	536	557	1,093	92	4	96	1,189
Other liabilities	1,264	370	1,634	1,239	160	1,399	3,033
Minority shareholders' interests	467	—	467	—	—	—	467
Capital stock & surplus	2,120	1,204	3,324	1,815	208	2,023	5,347
Total general funds liabilities, policyholders' & shareholders' equity	\$ 19,603	\$ 12,682	\$ 32,285	\$ 14,532	\$ 6,652	\$ 21,184	\$ 53,469

16. ACQUISITIONS

(a) Allmerica Group Life and Health Business

On October 6, 1999, Great-West Life & Annuity Insurance Company (GWL&A) entered into a purchase and sale agreement (the Agreement) with Allmerica Financial Corporation (Allmerica) to acquire via assumption reinsurance Allmerica's group life and health insurance business on March 1, 2000. This business primarily consists of administrative services only and stop loss policies. The inforce business was immediately reinsured back to Allmerica and is expected to be underwritten and retained by GWL&A upon each policy renewal date. The effect of this transaction was not material to GWL&A's results of operations or financial position.

(b) General American Group Health and Related Business

Effective January 1, 2000, GWL&A reinsured the majority of General American Life Insurance Company's (General American) group life and health insurance business which primarily consists of administrative services only and stop loss policies. The agreement converted to an assumption reinsurance agreement January 1, 2001. GWL&A assumed approximately \$225 million of policy reserves and miscellaneous liabilities in exchange for \$225 million of cash and miscellaneous assets from General American.

17. SUBSEQUENT EVENTS

- (a) In conjunction with the Corporate Reorganization described in Note 2, Great-West Lifeco and Great-West Life made a joint offer dated December 14, 2000 to purchase the remaining 9,030,014 Great-West Life Series L Preferred Shares not held directly or indirectly by Lifeco for either \$23.00 cash or one Great-West Life Series O 5.55% Preferred Share for each Series L Share. The joint offer closed on January 5, 2001, with Lifeco acquiring a further 658,311 Series L Shares, which increased its holding to 9,623,809 Series L Shares and 6,278,671 new Great-West Life Series O Preferred Shares being issued in exchange for 6,278,671 Series L Preferred Shares. After the transaction, there are 11,716,841 Great-West Life Series L shares outstanding with 2,093,032 publicly held.

The Series O 5.55% Non-Cumulative Preferred Shares are redeemable at the option of the Company and are convertible into Series P Preferred Shares at the option of the holder on October 31, 2010 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

- (b) On January 29, 2001, in relation to an offer by Investors Group to acquire 100% of the outstanding common shares of Mackenzie Financial Corporation, Great-West Life announced that it will participate in the offer by investing \$230 million to acquire 9,200,000 Investors Group treasury common shares.
-

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2000 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



D. E. Morrison
Fellow, Canadian Institute of Actuaries
Actuary, The Great-West Life Assurance Company

Winnipeg, Manitoba
January 31, 2001

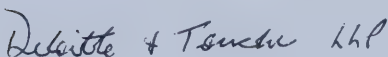
AUDITORS' REPORT

To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds consolidated assets as at December 31, 2000 and 1999 and the summaries of consolidated operations, the consolidated statements of surplus, the consolidated statements of cash flows and the segregated funds consolidated statements of changes in assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2000 and 1999 and the results of its operations and its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.



Chartered Accountants

Winnipeg, Manitoba
January 31, 2001

SUMMARY OF PARTICIPATING POLICYHOLDER DIVIDEND POLICY

Each holder of a Great-West Life participating policy benefits from the surplus of the participating account at the date of issue, and throughout the life of the participating policy. This surplus was generated entirely from the net financial results of policies issued on a participating basis, both past and present.

The amount of surplus to be distributed at any time will depend upon the consideration of a number of factors, including the past and anticipated future net income of the participating account, the growth of the participating account and the need to retain surplus to provide capital to support the participating policies, the need to maintain consistency in distribution from one time period to another, and the overall solvency of the Company.

Great-West uses the contribution method of dividend determination for classes of participating policies. Premiums are calculated with assumed levels of investment returns, mortality/morbidity costs and expense loadings. To the extent that emerging experience is better than the levels assumed in the premium calculation for a particular class of policies, a contribution to surplus will be made by that class of policies. Distributable surplus for each class of policies is based upon the application to each policy of dividend calculation factors which reflect the contribution to surplus by that class of policies.

A copy of the full text of the Participating Policyholder Dividend Policy as approved by the Board of Directors is available, on request.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY

December 31, 2000

Name	Principal Office Address	Carrying Value ⁽¹⁾ (000)	Voting Share Ownership (%)
Gold Circle Insurance Company	Winnipeg, Manitoba	\$ —	100 %
GWL Investment Management Ltd.	Winnipeg, Manitoba	2,155	100 %
GWL Realty Advisors Inc.	Winnipeg, Manitoba	—	100 %
CGWLL Inc.	Winnipeg, Manitoba	393	100 %
London Insurance Group Inc.	London, Ontario	2,531,386	100 %

(1) The carrying value of shares is shown at the Company's equity interest in the subsidiaries

CORPORATE GOVERNANCE

The Great-West Life Assurance Company is controlled by Great-West Lifeco Inc., a holding company which owns all of the voting interest in Great-West Life. Lifeco is controlled by Power Financial Corporation, which controls, directly or indirectly, approximately 81.66% of Lifeco's outstanding common shares representing approximately 64.99% of the voting interest in Lifeco.

Great-West Life believes that active boards and board committees are the cornerstone of sound corporate governance, and offers the following comments with respect to its governance practices.

Board and Board Committees

The Board of Great-West Life is comprised of 22 Directors, and there are seven Committees of the Board. A total of 52 Great-West Life Board and Board Committee meetings are scheduled for 2001. The mandate of the Board is to supervise the management of the business and affairs of Great-West Life. The business of Great-West Life is carried on by two separate organizations, based respectively in Winnipeg, Manitoba, and London, Ontario.

The management of Great-West Life is supervised by different committees of its Board of Directors.

The mandates of the various Committees are as follows:

- With regard to the Canadian operations, the *Canadian Executive Committee* exercises between meetings of the Board all the powers of the Board except those powers which by law cannot be delegated to an executive committee. Its mandate is to supervise the management of the business and affairs of the Canadian operations and the Canadian Executive Committee appoints senior officers, reviews their performance and determines their compensation. Nine meetings of the Canadian Executive Committee are scheduled for 2001.
- The mandate of the *Canadian Investment and Credit Committee* is to review the investment of funds which support Great-West Life's business in Canada and to ensure that Great-West Life adheres to the investment and lending policies, standards and procedures established in Canada, pursuant to its governing statute, the *Insurance Companies Act* (Canada). Nine meetings of the Canadian Investment and Credit Committee are scheduled for 2001.
- With regard to the U.S. operations, the *U.S. Executive Committee* exercises between meetings of the Board all the powers of the Board except those powers which by law cannot be delegated to an executive committee. Its mandate is to supervise the management of the business and affairs of the U.S. operations. Nine meetings of the U.S. Executive Committee are scheduled for 2001.
- The mandate of the *U.S. Investment and Credit Committee* is to review the investment of funds which support Great-West Life's business in the United States and to ensure that Great-West Life adheres to the investment and lending policies, standards and procedures established in the United States. Nine meetings of the U.S. Investment and Credit Committee are scheduled for 2001.
- The primary mandate of the *Conduct Review Committee* is to ensure that management has established procedures for the review of transactions with "related parties" as that term is used in the *Insurance Companies Act*, to review certain types of proposed related party transactions, and to approve such related party transactions as it deems appropriate. The Committee also monitors certain corporate policies and procedures, including procedures with respect to conflicts of interest and privacy. Four meetings of the Conduct Review Committee are scheduled for 2001.
- The primary mandate of the *Audit Committee* is to review the quarterly and annual financial statements, public disclosure documents containing financial information, and reports to be filed with regulatory authorities in connection with the financial condition of Great-West Life to review and monitor the role of the external auditors and to ensure that appropriate internal control procedures are in place. The Audit Committee has direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. Four meetings of the Audit Committee are scheduled for 2001.

- The mandate of the *Corporate Management Committee* is to review the management of matters relating to corporate organization, capital structure and overall adequacy of capital. Four meetings of the Corporate Management Committee are scheduled for 2001.

Board and Board Committee Composition

The composition of the Board of Great-West Life and of the Committees of the Board satisfy the requirements of the *Insurance Companies Act*, including those relating to the number of directors who are "affiliated" and "unaffiliated", the number who are "shareholder" and "policyholder" directors (as all of those terms are used in the *Insurance Companies Act* and Regulations), and the number who are employees and Canadian residents.

A majority of the 22 Directors on the Board of Great-West Life are "unrelated" to Great-West Life. In addition, a number of Directors are free from any interests in, or relationships with, either Great-West Life or its controlling shareholder.

A majority of the Directors on all Committees of the Board are unrelated to Great-West Life, and the Audit and Conduct Review Committees are comprised entirely of non-management Directors. The Chairman of the Board and the Chairmen of the Board Committees are all non-management Directors.

Board Operation

The Chairman's responsibility towards the efficient operation of the Board includes the recommendation, after consultation, of appropriate candidates for nomination to the Board, assessment of the effectiveness of the Board as a whole, of the Committees of the Board, and of the contri-

butions of individual Directors, and recommendations, after consultation, concerning Directors' compensation and any change that would improve the workings of the Board, including increases or decreases in its size, as well as development of Great-West Life's approach to governance issues.

Committees may, at the expense of Great-West Life, retain such professional advisors as the Committees deem appropriate for purposes of carrying out their duties and responsibilities.

New members of the Board are provided with an orientation concerning Great-West Life and its business activities.

Management is expected to develop strategic plans for Great-West Life's operations. The Executive Committee is involved on an ongoing basis in reviewing and approving the strategic plans, as well as the annual business plans incorporating business objectives and key results for which management is responsible every year. The strategic plans and annual business plans are submitted to the Board for ratification. Management is expected to implement the plans, achieve the objectives and results, and to report regularly to the Board and the Executive Committee on its progress.

Shareholder Matters

In addition to the public disclosure documents which Great-West Life is required to produce by various regulatory authorities, Great-West Life communicates with shareholders through quarterly reports, the annual report and press releases when appropriate. Every shareholder inquiry receives a prompt response from an appropriate officer of Great-West Life.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

As of December 31, 2000

James W. Burns, O.C. ^{3,4,5,6,7}

Chairman of the Board of the Company
Deputy Chairman,
Power Corporation of Canada

Gail S. Asper ¹

Corporate Secretary,
CanWest Global Communications Corp.

Orest T. Dackow ^{3,4,5,6,7}

Corporate Director

André Desmarais ^{3,4,5,6,7}

President and Co-Chief Executive Officer,
Power Corporation of Canada
Deputy Chairman,
Power Financial Corporation

Paul Desmarais, P.C., C.C.

Chairman of the Executive Committee,
Power Corporation of Canada

Paul Desmarais, Jr. ^{3,4,5,6,7}

Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Chairman,
Power Financial Corporation

Robert Gratton ^{3,4,5,6,7}

President and Chief Executive Officer,
Power Financial Corporation

Charles H. Hollenberg, M.D., O.C. ^{2,3,7}

Senior Consultant,
Cancer Care Ontario

Daniel Johnson ^{2,3,7}

Of counsel to McCarthy Tétrault

Kevin P. Kavanagh ^{3,4,7}

Corporate Director
Chancellor, Brandon University

J. Blair MacAulay ^{5,7}

Of Counsel to Fraser Milner Casgrain

The Right Honourable

Donald F. Mazankowski, P.C. ^{3,5}

Corporate Director
Business Consultant

William T. McCallum ^{4,6,7}

President and Chief Executive Officer,
Great-West Life & Annuity
Insurance Company
Co-President and Chief Executive Officer,
Great-West Lifeco Inc.

Raymond L. McFeetors ^{3,5,7}

President and Chief Executive Officer,
The Great-West Life Assurance Company
President and Chief Executive Officer,
London Life Insurance Company
Co-President and Chief Executive Officer,
Great-West Lifeco Inc.

Randall L. Moffat ¹

Corporate Director

Jerry E.A. Nickerson ^{1,7}

Chairman,
H.B. Nickerson & Sons Limited

Gordon F. Osbaldeston, P.C., C.C. ^{2,3}

Corporate Director

The Honourable

P. Michael Pittfield, P.C., Q.C. ^{4,6,7}

Vice-Chairman,
Power Corporation of Canada
Member of the Senate of Canada

Michel Plessis-Bélair, F.C.A. ^{1,3,4,5,6,7}

Vice-Chairman and Chief Financial Officer,
Power Corporation of Canada
Executive Vice-President and
Chief Financial Officer,
Power Financial Corporation

H. Sanford Riley

President and Chief Executive Officer,
Investors Group Inc.

Guy St-Germain, C.M. ^{1,3,5}

President,
Placements Laugerma Inc.

Gérard Veilleux, O.C. ¹

President,
Power Communications Inc.

1 Audit Committee

2 Conduct Review Committee

3 Canadian Executive Committee

4 United States Executive Committee

5 Canadian Investment and Credit Committee

6 United States Investment and Credit Committee

7 Corporate Management Committee

EXECUTIVE OFFICERS

Raymond L. McFeetors

President and Chief Executive Officer

R. Thomas M. Allan

Executive Vice-President,
Corporate Investments

Denis J. Devos

Executive Vice-President,
Individual Insurance and Investment Products

Allan S. Edwards

Senior Vice-President, Business Practices
Chief Compliance Officer

James R. Grant

Executive Vice-President, Group

William W. Lovatt

Executive Vice-President,
Chief Financial Officer

David E. Morrison

Senior Vice-President and Actuary

Peter G. Munro

Executive Vice-President,
Chief Investment Officer

Ron D. Saul

Senior Vice-President,
Chief Information Officer

Sheila A. Wagar

Senior Vice-President,
General Counsel and Secretary

GLOSSARY OF INSURANCE AND FINANCIAL TERMS

Administrative Services Only: An arrangement where the insurer provides administrative services for a plan sponsor's health benefits plan, such as maintaining enrollment information and adjudicating claims. The plan sponsor bears some or all of the claim risk.

Annuity: A contract providing income payments at regular (usually monthly) intervals for a specified period. A life annuity provides payments during the lifetime of the annuitant. An annuity certain provides periodic payments over a specified number of years and is not dependent on any person's survival. An annuity consideration is the payment, or series of payments, made to purchase an annuity. An annuity can be purchased as either registered or non-registered funds.

Cash value: The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable by death or maturity.

Critical illness insurance: provides a one-time lump sum benefit to an insured who has been diagnosed with a critical condition. Normally, the insured must be diagnosed with a condition listed in the policy and live a certain period of time following the diagnosis, to collect benefits.

Derivative financial instruments: Financial contracts that derive their value from the value of an underlying asset or index, such as interest rates, exchange rates, equities or commodities. Derivative transactions are conducted in the over-the-counter market directly between two parties or on regulated exchange markets.

Swaps are contractual agreements between two parties to exchange a rate of return on one investment for the rate of return on another investment such as a floating rate of interest for a fixed rate of interest. For cross-currency swaps, floating interest payments of one currency are exchanged for floating interest payments in a different currency. Equity index swaps are contracts to pay or receive cash flows based on the increase or decrease in the underlying index.

Options convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period. For options purchased, a premium or fee is paid for the right to exercise the option.

Forwards and *Futures* are contracts to either buy or sell a specified currency or financial instrument at a specified price and date in the future. Forward contracts are customized and transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Notional Amount is the face or principal value upon which the performance of a derivative contract is based. In general, notional values are not paid or received.

Maximum Credit Risk is the current replacement cost of all outstanding derivative contracts with a positive (receivable by the company) value.

Future Credit Exposure represents the potential for future changes in value based upon a formula prescribed by the Superintendent of Financial Institutions Canada.

Credit Risk Equivalent represents the total of maximum credit risk and future credit exposure, less collateral.

Risk Weighted Balance represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty on a basis prescribed by the Superintendent of Financial Institutions Canada.

Total Estimated Fair Value is the net of contracts in a receivable position (maximum credit risk) and those in a payable position.

Disability insurance (DI): A type of health insurance designed to compensate insured people for a portion of the income they lose because of a disabling injury or illness. Generally, benefits for disability insurance are in the form of monthly payments. Individual DI policies can be cancellable, where the insurer can terminate the policy at any time by providing written notice and refunding any advance premiums; or non-cancellable, where the insurer must renew the policy until the insured reaches a certain age, and cannot increase premiums.

Experience refund: The portion of a group insurance premium that is returned to a group policyholder whose claims experience is better than had been expected when the premium was calculated.

Group Insurance Operations: A business unit of Great-West Life, that markets life, health and disability insurance products for group clients.

Individual Insurance & Investment Products (IIIP):

A business unit of Great-West Life in Canada, that markets life insurance and disability income insurance products for individual clients, and accumulation and payout annuity products for both group and individual clients.

Life income funds (LIFs): Plans which provide flexible options for receiving income from a company pension plan.

Life insurance in force (face amount): The amount stated as payable at the death of the insured or at the maturity of the policy.

Minimum Continuing Capital and Surplus

Requirement (MCCSR): A formula to determine the adequacy of an insurance company's capital, specified by the Office of the Superintendent of Financial Institutions Canada.

Morbidity rate: The likelihood that a person of a given age will suffer an illness or disability. The premium that a person pays for health insurance is based in part on the morbidity rate for that person's age group.

Mortality rate: The frequency with which death occurs among a defined group of people. The premium that a person pays for life insurance is based in part on the mortality rate for that person's age group.

New annualized premium: A measure of new sales, equal to the full first-year premium on all sales made during the year.

Non-participating life insurance: Life insurance issued on which policyholders do not share in any surplus earnings distributed by the company. No policy dividends are payable. The premium is based on an estimate of future costs and investment earnings very close to what the company feels most likely to occur, with a margin for contingencies and profit.

OSFI: Office of the Superintendent of Financial Institutions Canada. The federal agency responsible for regulating and supervising banks, insurance, trust, loan and investment companies and co-operative credit associations that are licensed or registered by the federal government.

Participating life insurance (Par): Life insurance on which policyholders may share in the surplus earnings attributable to the participating business. Policyholder dividends can be left on deposit in the policy as part of the cash value or can be used to purchase additional coverage, pay premiums or make loan payments.

Persistency: A measure of how long a policy or block of policies remains in force.

Policy liabilities: Amounts set aside today which, when combined with future premiums and investment income, will provide for future claims and expenses on in force policies.

Policyholder dividend: A return to the policyholder of his or her equitable share of the distributable surplus earnings of the participating account. Policyholder dividends are not guaranteed but depend on mortality experience, investment earnings and other factors contributing to the participating account's financial position.

Policyholder surplus: The amount of a participating policyholder assets remaining after all the liabilities have been deducted.

Premium income: The income from sales of insurance policies and retirement savings and income products.

RRIF: Registered retirement income funds. Savings plans which can be purchased using RRSP funds and pay out as long as the fund balance supports the payments. RRIF payments are taxable while the remaining funds are tax sheltered.

Reinsurance contracts: These contracts are legal agreements in which an insurer (cedant) transfers certain risks on insurance policies to another insurance company (the reinsurer).

RRSP: Registered Retirement Savings Plan. A plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement. Income taxes on contributions and earnings are deferred until the funds are withdrawn.

Segregated funds: Investment funds managed separately from an insurance company's general funds, on behalf of clients. Unlike mutual funds, a percentage of the principal invested may be guaranteed in the event of the death of the investor.

Term life insurance: Insurance which provides protection for a specific length of time, such as one, five, 10 or 20 years. Most plans allow the policyholder to renew for another term or convert the policy to whole life insurance. The cost of term insurance increases as the policyholder ages. Term insurance does not generally have a cash value.

Universal life insurance: A whole life insurance product in which the mortality, investment and expense factors used to calculate premium rates and cash values are stated separately in the policy. Expense charges are deducted from the premium, and the balance is credited to the policy's cash value. Each month, the insurer deducts mortality costs from the cash value and credits the remainder of the cash value with interest. The policyholder can specify the premium amount, and change the death benefit after the policy has been issued, subject to restrictions established by the company.

Whole life insurance: Insurance which protects the policyholder throughout his or her lifetime, providing death benefits and building cash value. The policyholder may borrow funds against the value of the policy. The premium paying period may vary, e.g., payments may end after 20 years or at age 65. The cash value continues to build after premiums are fully paid. Also called traditional or permanent insurance.

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

100 Osborne Street North, Winnipeg, Manitoba R3C 3A5

Stock Exchange Listings

Symbol: GWL.PR.L, GWL.PR.O

Only Preferred Shares Series L and O are listed on the Toronto Stock Exchange.

Transfer Agent and Registrar

Computershare Trust Company of Canada

200 Portage Avenue, Mezzanine Level,
Winnipeg, Manitoba, R3C 3X2

Dividends

Preferred Shares Series L, N, O – Dividend record dates are usually between the 14th and 17th of January, April, July and October. Dividends are usually paid the last day of January, April, July and October.

Annual General Meeting

April 26, 2001 at 11:00 a.m. at a location in Winnipeg as specified in the notice of meeting.

Investor Information

For financial information about Great-West Life, please contact the Chief Financial Officer at (204) 946-7341

For copies of the Annual or Quarterly Reports, contact the Secretary's Department at (204) 946-8366 or visit our web site: www.gwl.ca

GroupNet, GWLIM, Great-West Life and key design, are trademarks of The Great-West Life Assurance Company.

London Life, Freedom 55, Freedom 55 Financial, London Insurance Group, London Reinsurance Group and LRG, London Guarantee and London Guarantee Insurance Company are trademarks of London Life Insurance Company.

Quadrus Investment Services Ltd. and design, Quadrus and Quadrus Group of Funds are trademarks of Quadrus Investment Services Ltd.



Member of the Power Financial Corporation group of companies